FINANCIAL TIMES

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FRIDAY JULY 24 1998

FT Weekend tomorrow
Where lies the truth?
Reality is being abused as fact and fiction merge

WPP's Martin Sorrell
'I'm not successful. There's so much more I could do'
Interview, Page 8

Kohlberg Kravis Roberts
Buy-out specialist sees opportunities in Europe
Page 14

Rover job cuts
Is the pound really to blame?
Page 7

BAe and Dasa discuss merger

Aerospace groups move on European defence shake-up

By Alexander Nicoll and Haig Simonian in London and David Owen in Paris

British Aerospace and Daimler-Benz Aerospace of Germany have been discussing a merger that would be the biggest move so far to restructure Europe's overcrowded defence industry, it emerged yesterday.

The French government's decision to privatise Aerospatiale, announced on Wednesday, is thought to have been influenced by the possibility that BAe and Dasa might proceed with a deal that would exclude France.

BAe and Dasa yesterday declined to comment on their talks. People close to both sides confirmed that discussions had been going on between the British and German companies and that their relationship was becoming increasingly close.

However, it was believed that there were still important issues *to be resolved before* an agreement could be struck. The companies would almost certainly now wait to see how the French privatisation progressed before deciding to proceed with their own bilateral deal, analysts said.

Under pressure from their governments, BAe, Dasa and Aerospatiale have been working on a blueprint for a pan-European aerospace and defence company that would rationalise the industry.

French state ownership of Aerospatiale has been the biggest stumbling block, with BAe and *Dasa refusing to proceed unless* it was privatised.

Executives of both companies have made clear they are anxious for France to play a full part in the industry restructuring.

BAe and Dasa, as well as the British government, yesterday welcomed the news from Paris. In an attempt to secure French participation, Jürgen Schrempp, Daimler-Benz chairman, met Dominique Strauss-Kahn, French finance minister, last week. The meeting coincided with a separate get-together between Manfred Bischoff, Dasa's chief executive, *and Alain Richard, French* defence minister.

At both meetings, the German side underlined the need for consolidation among European aerospace and defence companies and the desirability of French participation in the process.

However, industry analysts did not rule out BAe and Dasa proceeding if the deal to merge Aerospatiale with the defence interests of Lagardère, the private sector defence and publishing company, did not proceed as quickly as Paris intended. It aims to complete the transaction by the end of the year.

In London, Lionel Jospin, the *French prime minister, said the* UK and France should play their part in "the construction of a great European aeronautics and space industry".

France bites bullet, Page 15
Lex, Page 16

WORLD NEWS

Hardliners sentence Tehran mayor to five years in jail

Gholamhossein Karbaschi, the popular mayor of Tehran, was sentenced to five years in jail on charges of embezzlement. The politically charged trial, begun six weeks ago and watched on television by vast audiences, has been *widely interpreted by Iranian public* opinion as an attempt by Islamist hardliners to clip the wings of reformists around President Mohammad Khatami. **Page 16; Editorial Comment, Page 15**

González's future in doubt
The international political future of *Felipe González, the former Span*ish prime minister, was put in doubt after reports emerged that two officials who served under him had been sentenced to 13 years in jail for their part in a "dirty war" against Eta. **Page 2**

UK backs deal to clean up ocean
Britain agreed to remove all steel oil rigs from the sea and to cut radioactive discharges from *nuclear* reprocessing plants to close to zero as part of a landmark European agreement on protecting the North Atlantic. **Page 2**

Lockerbie suspects 'accept plan'
The two Libyans accused of the Lockerbie bombing would accept a US and British proposal of a trial in The Hague under Scottish law *if the conditions* under which it was held were fair. **Page 6**

Banknote copying warning
Colour photocopiers should be fitted with electronic devices that prevent the copying of banknotes, according to the European central bank. **Page 3**

Chechen leader escapes car bomb
President Aslan Maskhadov, leader of Russia's breakaway Chechnya *region, escaped with slight injuries* after a car bomb exploded near his motorcade. **Page 2**

Bosnian brothers to be released
Nato peacekeepers will return two Bosnian Serb brothers arrested by mistake as war crimes suspects. The two men were believed to have been Predrag Banovic and his twin brother Nenad who have been accused of torturing Muslim inmates at Keraterm prison camp in 1992.

Scheme to help poor buy homes
The Ford Foundation announced a $50m grant to help low-income families in the US buy their own houses, under a commercially backed mortgage finance scheme that is expected to provide $2bn in affordable mortgages over the next five years. **Page 5**

Colombia jobless at record high
Unemployment in Colombia has reached a record level since measuring techniques were standardised 22 years ago, and now ranks among the highest in Latin America. **Page 5**

Canadian Indians in land deal
British Columbia and a native *Indian group have agreed a prece*dent-setting land treaty under which the group will gain ownership of about 2,000 sq km in exchange for surrendering all future land claims. **Page 5**

US votes to ban Internet gambling
The US Senate voted to ban most forms of gambling on the *internet* in an attempt to block the rapid growth of unregulated casinos and sports-betting syndicates. **Page 5**

Mount Etna threatens to erupt
Ash belching out of Mount Etna closed down Catania airport in Sicily as the volcano sent up plumes of smoke six miles high.

BUSINESS NEWS

ICI shares in 15% fall after warning of lower profits

Imperial Chemical Industries, largest UK-based chemicals group, issued a profits warning, triggering a near 15 per cent fall in its shares. **Page 22; Lex, Page 16**

Royal Dutch/Shell, Anglo-Dutch oil group, and Occidental of the US completed a $1bn global asset swap, the biggest such transaction yet seen in the international oil industry. **Page 17; Lasmo to sell Colombian assets, Page 22**

Hitachi Asia, Singapore-based arm of the Japanese electronics group, plans to raise $800m in a corporate bond issue aimed at European and Asian investors. **Page 17**

Philips, Europe's largest consumer electronics group, produced a further earnings improvement despite economic woes in Asia and a further erosion in prices for its products. **Page 18**

Daimler-Benz of Germany and Chrysler of the US had their planned merger cleared by the European Commission. **Page 18**

BMW, German carmaker, reported interim net profits 17 per cent ahead at DM511m ($282m), but its *shares fell over fears about the* health of Rover, its UK subsidiary. **Page 17**

Pilkington, UK-based glassmaker, warned that profits from Pilkington Libbey Owens Ford, its US auto-glass subsidiary, would be hit by a strike at General Motors. **Page 22**

Autoliv, Swedish-US automotive components group, reported a 4 per cent rise in second-quarter profits to $84.3m. **Page 18**

Venezuela's privatisation programme suffered a severe blow when the sale of its aluminium complex fell through for the second time in four months. **Page 17**

Banco Bilbao Vizcaya, Spain's largest banking group by market capitalisation, denied market rumours that it planned to merge with the rival Banco Santander. **Page 16**

ABB, international electrical engineering conglomerate, reported a 13 per cent rise in net income to $638m, helped by lower interest charges and taxes. **Page 18**

ASM Lithography shares fell more than 11 per cent as the Dutch producer of semiconductor manufacturing equipment reported a fall in orders. **Page 18**

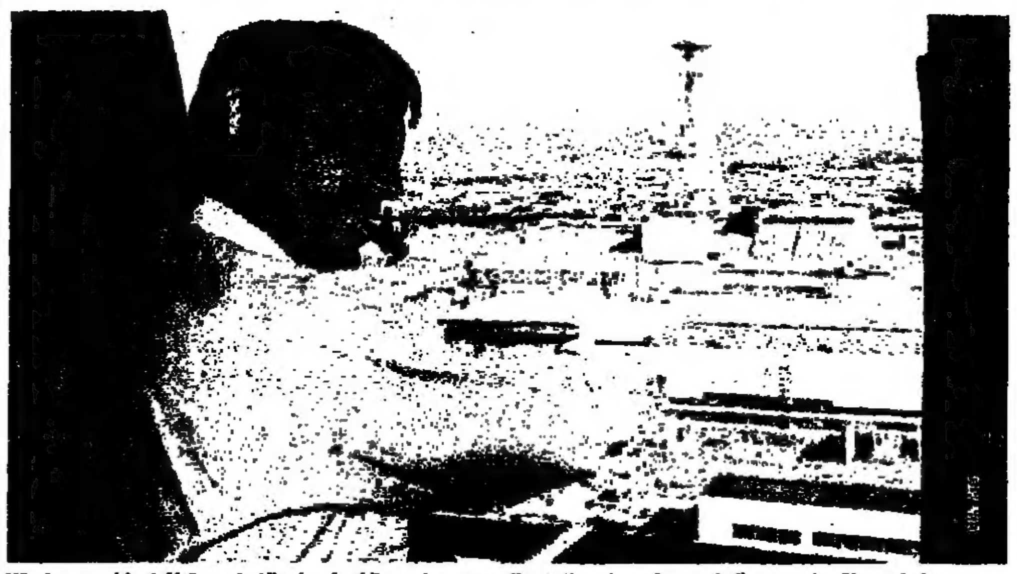
Telia, state-owned Swedish telecommunications operator, sold 370 commercial properties for SKr5.1bn ($640m). It was the country's largest real estate disposal. **Page 16**

ING Barings, Dutch owned investment bank, named David Robins, former head of Union Bank of Switzerland in the UK, as its chief executive. **Page 18**

United Video Satellite Group of the US withdrew its hostile $2.8bn bid for Gemstar, a developer of interactive television technology. **Page 21**

Henry Ansbacher, century-old London merchant bank, is to be reduced to a brand name for private banking and offshore asset management. **Page 7**

Lex on French defence
Is this privatisation or nationalisation?
Page 16



US vice-president Al Gore, in Ukraine for bilateral co-operation talks, views from a helicopter the Chernobyl nuclear reactor, scene of the world's worst civil nuclear disaster in 1986 Picture: Reuters

Boeing's stock plunges 13%

By Christopher Parkes in Los Angeles

Boeing stock plunged 13 per cent yesterday morning after the world's largest aerospace group revealed an unexpectedly sharp drop in second-quarter profits and predicted earnings for this year and next would be well short of Wall Street's targets.

Sales rose 9 per cent to $13.4bn in the three months to the end of June, but earnings per share fell 46 per cent to 26 cents as the impact of Asia's economic troubles and price competition from Europe's Airbus Industrie compounded the effects of the company's year-old production crisis. Attempting to shore up its executives' credibility, the board announced a set of financial and management targets intended to increase net return on sales to 7 per cent from less than 2 per cent this year and less than 4 per cent in 1999. Planned cost savings include a further reduction of 8,000 jobs in addition to the 20,000-plus planned for next year.

Despite concentrated efforts to *keep securities analysts* up to date with detailed monthly progress reports, and recent indications that the corner had been turned, profits were 20 per cent below the 33 cents analysts had forecast.

Boeing blamed the decline on lower margins, a $78m charge to cover the cost of scrapping the MD-11 airliner programme which came with last year's purchase of McDonnell Douglas, and the costs stemming from the late delivery of the new-generation 737 commercial jet.

In a further attempt to keep expectations under control, the company broke with tradition and published profit targets - $1bn for this year and $2bn for 1999 - again disappointing investors. The official net income estimates, equivalent to earnings per share of about $1 and $2 in 1999, compared weakly with Wall Street's average expectations of $1.60 and $3.24.

By mid-morning Boeing stock had fallen $6⅞ to 41\frac{1}{16}$ as investors digested the results and news that Singapore Airlines had *deferred for two years deliveries* of nine Boeing and two Airbus airliners. The stock market's mood may also have been affected by the cautious tone of yesterday's official statement, which was sprinkled with warnings suggesting the crisis in Boeing's factories, which led to production lines being closed last autumn, is far from over.

The company is working to raise the monthly output of its new-model 737s by 50 per cent to 21 aircraft which Phil Condit, chairman, said was fraught with "significant performance risks".

Boeing also hinted the toll the Asian crisis has taken on demand for 747 Jumbo jets, its most profitable aircraft, might increase.

Lex, Page 16

Five firms link to create biggest legal practice in Europe

By Robert Rice, Legal Correspondent

Five of Europe's leading commercial law firms yesterday joined forces to create Europe's largest international legal practice and the second largest in the world.

The move by Linklaters, the UK international law firm and the German, Dutch, Belgian and Swedish members of the Alliance of European Lawyers, is a significant step in the consolidation of the European legal services industry. They hope it will lead to a full merger after two years.

With more than 1,900 lawyers working from 28 offices in 16 countries around the globe, the new *alliance*, which the firms themselves call an "international firm", will be second only to Baker & McKenzie of the US, which employs 2,325 lawyers.

By combining at the international level, the European firms aim to capitalise on opportunities *offered by the globalisation of* business and the expected upsurge in cross-border activity triggered by European economic and monetary union, which begins on January 1, 1999.

Linklaters has fallen behind its rivals in recent years as clients, particularly the European and US investment banks, started to demand a fully co-ordinated service from a single law firm on big multi-national deals.

"We've been at a disadvantage in not providing that approach," said Charles Allen-Jones, Linklaters' senior partner.

US law firms have won the lion's share of legal work on recent cross-border deals, including the merger between Daimler-Benz and Chrysler, handled by *Shearman & Sterling of the US*.

But the creation of the new international practice, to be known as Linklaters & Alliance, takes the UK law firm only part way towards its goal of establishing a pan-European law practice.

The alliance will include Linklaters, De Bandt van Hecke & Lagae of Belgium, De Brauw Blackstone Westbroek, a Dutch firm, Lagerlöf & Leman of Sweden, and Germany's Oppenhoff & Rädler.

The joint chairmen of Linklaters & Alliance will be Mr Allen-Jones and Michael Oppenhoff, senior partner of Oppenhoff & Rädler. The new alliance will start operating on November 1.

The world's biggest law firms

	No of lawyers
Baker & McKenzie (US)	2,325
Linklaters & Alliance (EU)	*1,909*
Clifford Chance (UK)	1,880
Skadden Arps Slate Meagher & Flom (US)	1,200
Jones Day Reavis & Pogue (US)	1,100
Freshfields (UK)	1,100

Source: Firms

Change of plan, Page 2
Lex, Page 16

UK rules against web brand pirates

By John Mason, Law Courts Correspondent

The UK courts yesterday acted to protect companies from internet "pirates" who register famous brand names as world wide web "domain" names and then try to sell them on for a profit.

The Court of Appeal ruled the practice of appropriating corporate brand names without consent and then dealing in them amounted to unlawful trademark infringement and "passing off".

The ruling is seen as a substantial enhancement of worldwide internet regulation. It brings UK law into line with that in the US where the courts have previously ruled such practices amount to illegal trademark dilution.

Although the US and UK are the only countries to have adopted this position so far, trademark lawyers believe the ruling will help create global consistency on the issue.

Richard Penfold, of London law firm Harbottle & Lewis which acted for Virgin Enterprises, one of the companies involved, said: "We should now start getting a common theme to how countries approach this problem."

He said the judgment may also prove useful in attacking similar activities, such as registering famous brands as company names and the grabbing of valuable "vanity" telephone numbers.

The case was brought by a number of leading UK companies, including British Telecom, J. Sainsbury, Marks & Spencer, Ladbroke and Virgin. They had complained about the use of their brand names by a two-man company called One in a Million which had registered "domain" names, such as "marksandspencer.com", on the internet.

The company then tried to deal in the registered names. In a previous case, it registered the name "burgerking.co.uk" and then offered it to the hamburger chain for £25,000. The two directors of One-in-a-Million claimed they were doing nothing wrong. They argued their business was similar to dealing in car registration numbers or buying blocking plots of land to sell on to property developers.

WORLD MARKETS

STOCK MARKET INDICES		
New York lunchtime		
Dow Jones Ind Av	9,056.62	(-70.29)
NASDAQ Composite	1,950.43	(-19.32)
Europe and Far East		
CAC40	4,235.89	(+15.77)
DAX	6,058.45	(-32.59)
FTSE 100	5,976.2	(-13.4)
Nikkei	16,188.01	(-105.06)
US LUNCHTIME RATES		
Federal Funds	5.31%	
3-mth Trees Bills: Yld	5.090%	
Long Bond	106⅛	
Yield	5.670%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(same)
UK: 10 yr Gilt	109.5391	(109.549)
France: 10 yr OAT	103.57	(same)
Germany: 10 yr Bund	104.20	(same)
Japan: 10 yr JGB	110.85	(110.91)
NORTH SEA OIL (Argus)		
Brent Dated	$12.16	(12.11)

GOLD		
New York Comex		
(Aug)	$293.0	(294.2)
London	$293.15	(294.55)
EXCHANGE RATES		
Dollar		
New York lunchtime		
£	1.649	
DM	1.7885	
FFr	5.997	
SFr	1.508	
Y	141.455	
London		
£	1.6431	(1.6407)
DM	1.7926	(1.7907)
FFr	6.0098	(6.0020)
SFr	1.5119	(1.5137)
Y	141.29	(140.99)
Tokyo Close		Y 141.67
Sterling		
DM	2.9455	(2.9379)

CONTENTS

Full contents and Lex: back page

UK backs deal to clean up North Atlantic

By Peter Wise in Lisbon

Britain agreed yesterday to remove all steel oil rigs from the sea and to cut radioactive discharges from nuclear reprocessing plants to close to zero as part of a landmark European agreement on protecting the North Atlantic.

But the UK oil and gas industry said the agreement on offshore platforms, part of a new strategy for protecting the North-East Atlantic, was based on "political expediency rather than on hard facts". It estimates the cost of removing all 475 structures from the North Sea at \$20bn.

Other EU governments and environment groups, which have been pressing Britain to drop resistance to a total ban on sea dumping, welcomed the decision as an historic breakthrough for preventing maritime pollution.

Greenpeace, whose campaigning forced Shell to abandon plans to dump the Brent Spar oil rig at sea in 1995, said the decision by European environment ministers meeting in Portugal was a landmark victory.

"This virtually guarantees that no disused steel structures will be left in the North Sea," said a Greenpeace spokesman.

"It also signals the beginning of the end of the nuclear reprocessing industry in Britain and France."

The agreement by the Oslo Paris Commission (OSPAR) for protecting the North Atlantic, unanimously adopted yesterday by 15 countries, prohibits all dumping of steel installations at sea.

Exemptions could be made, on a case-by-case basis, for the foundations, known as "footings", of up to 41 rigs weighing more than 10,000 tonnes to remain in the sea.

Britain and Norway, which operate the vast majority of offshore platforms, had originally sought much wider exemptions, involving up to 123 rigs.

John May, head of the UK Offshore Operators Association, said the oil and gas industry was disappointed and concerned over the safety, environmental and economic implications of the decision.

It wanted recovery decisions to based on specific assessments of individual rigs.

The OSPAR accord also calls for radio-active discharges into the sea to be progressively reduced to close to zero by 2020.

The agreement was reached after Britain and France agreed to drop demands for possible future exemptions from a complete ban on emissions.

John Prescott, Britain's deputy prime minister, said the decision did not imply the closure of the Sellafield nuclear reprocessing plant in north-east England or job losses among the 7,000 employees.

Editorial comment, Page 15

France's 1999 budget points to the left but turns to the right

The policies are designed to prove business-friendly, recognising high charges on employment have to be cut, to help create jobs

By Robert Graham in Paris

As a political exercise, the presentation of France's 1999 budget is reminiscent of an old tale about the late President Nasser of Egypt.

When arriving at a summit meeting with his fellow-Arab leaders, Nasser's chauffeur asked which way he should negotiate a roundabout. "Put your indicator out left and then turn right," Nasser ordered.

The budget measures outlined on Wednesday by Dominique Strauss-Kahn, finance minister, send the same deliberately confusing signals. Superficially, they seemed tailored to the Socialist-led government's electorate. But on closer examination, Mr Strauss-Kahn has initiated policies designed to prove he is business-friendly, recognising France's high charges on employment have to be cut to help create jobs.

In this, his first fully fledged budget since the government took office in June 1997, he has also strayed from the traditional Socialist path by recognising that the weight of the tax burden needs to be reduced. But his proposed tax-cutting measures are more a case of taking away with one hand to give with the other.

The overall fiscal pressure will remain almost the same and the fundamental base of the tax take remains unaltered, with heavy reliance on VAT benefiting from strong economic growth.

The most important difference from the 1998 budget, whose choices were conditioned by the inheritance from the previous centre-right government, is the decision to increase public spending.

The government wants to help sustain the recovery and show the left it still believes in strong social spending. The increase will be only 1 per cent in real terms, but releases the brake on higher spending on education, job creation, justice and urban development that will be difficult to control. Local authorities are likely to begin to want to start spending more next year ahead of elections.

Yesterday, critics on the right warned that the combination of renewing public spending and a relatively unambitious (in euro-zone terms) budget deficit target of 2.3 per cent promised trouble in two years' time if the economy slowed. The Bank of France has warned that a serious attempt should be made to cut public spending in the fat years of growth, to cope with lean years.

The government has allowed itself some leeway to make final touches to the 1999 policies in September.

But the increasingly uncertain international picture may complicate the longer-term aim to bring the deficit below 2 per cent in the year 2000 and reverse the rise of debt as a proportion of GDP. This is currently at 58 per cent, having almost doubled in the past decade.

To achieve the 1999 deficit target will require tight control over social security spending. This year's social security budget has overshot alarmingly and emergency measures are being agreed.

Mr Strauss-Kahn tackled two taxes which have proved counter-productive but have gone untouched for years. Over the next five years, employers will stop having to have their payrolls included in the assessment of the *taxe professionelle*. Chief immediate beneficiaries will be small businesses, also rewarded with several other tax breaks.

Another move to help jobs is the cutting of the high taxes on property transactions instrumental in a poorly performing real estate market and holding back building activity. Business has been relieved to see removal of a third of the extra corporation tax imposed for this year.

Another bold step ducked by previous administrations is a commitment to overhaul the land registry with a view to altering the collection of property taxes. This could be politically dangerous because perhaps half French households may end up paying more.

Editorial comment, Page 15

José Barrionuevo, former interior minister, (left) and his deputy Rafael Vera, pictured during their trial, must wait until later this week for confirmation of the decision by Madrid's Supreme Court AP

Trial verdict could damage González

By Tom Burns in Madrid

The political future of Felipe González, the former Spanish prime minister, was put in doubt yesterday after reports emerged that two top officials who served under him had been sentenced to 13 years in jail for their part in a "dirty war" against Eta.

Spain's media reported yesterday that Madrid's Supreme Court had found José Barrionuevo, former interior minister, and his deputy, Rafael Vera, former secretary of state for security, guilty of kidnapping and of misappropriation of public funds. According to a leak of the politically explosive verdict, which will be officially announced next week, both were acquitted of belonging to an armed group, a third charge levelled against them in an eight week hearing that ended earlier this month.

Mr Barrionuevo, who is a Socialist member of parliament, and Mr Vera had denied any connection with Gal, or the Anti-Terrorist Guerrilla Groups, a shadowy organisation responsible for 28 deaths between 1983 and 1987 in a gun and bomb campaign against Eta, the outlawed Basque separatist group. They said the charges had been trumped up by political opponents.

The Socialist party yesterday restated its faith in the innocence of the men on trial. It accused the court of intentionally leaking its ruling and said it would withhold further comment until the verdict was formally delivered.

During the trial, Mr González, who has staunchly defended his former minister and Mr Vera, denied under oath having authorised any dirty war against Eta.

But spokesmen for other political parties called on the former prime minister to take the blame for the dirty war. If the verdict is as reported, Mr González, who won four successive elections between 1982 and 1996 and resigned from the Socialist party leadership last year, will be severely discredited.

A jail sentence against Mr Barrionuevo will almost certainly bar Mr González from any future role in international politics. He is reported to have been preparing a bid to be the next president of the European Commission with the support of Jacques Delors, the former Commission president.

The trial centred on the first of Gal's undercover actions – the kidnap of a Spanish-Basque resident in France who had been mistaken for an Eta leader. Ten fellow defendants admitted their role in the kidnap.

Jospin stresses national identity within EU

By Robert Graham in Paris and Peter Norman in Berlin

Lionel Jospin, French premier, yesterday called for a pragmatic approach in constructing a common European foreign policy that fully accepted "the autonomy of each partner".

In an inaugural address at Britain's new Foreign Policy Centre, Mr Jospin argued that Britain and France should work together in creating a " new equilibrium" in Europe.

Mr Jospin said the new Europe could not afford to ignore national identities. "Far from implying the abandonment of the idea of working together, the concept of subsidiarity should, in my view, make it possible to deepen the construction of Europe," he said.

Mr Jospin's speech was "a return match" after the address Tony Blair, British premier, delivered earlier this year to the French National Assembly. Just as Mr Blair spoke in French, Mr Jospin made a point of speaking in English. Like Mr Blair he used the occasion as a platform for domestic policy, seeking to find common ground while not hesitating to conceal the differences.

On ideology, Mr Jospin said: " We say yes to market economy but no to market society."

● In a separate speech in Berlin, Gerhard Schröder, the German opposition Social Democrat candidate for chancellor, said the Blairite concept of the "stakeholder society" should become the model for European Union countries and a way of legitimising further European integration.

Challenging a favourite thesis of Helmut Kohl, German chancellor, Mr Schröder told an audience of business people that it would be increasingly difficult to justify the integration of Europe on the grounds that it served as a bulwark against war and fascism.

This reason was of great importance for the founding fathers of the EU but would lose its impact as the generation that experienced the second world war and its aftermath died out.

With Social Democrat-led governments in power or having the prospect of power in the main EU member states, there was an opportunity to promote the idea of the stakeholder society. The economic advantages of the single market were an insufficient legitimisation of integration, he said.

French banker hits at stock exchange alliance

By George Graham, Banking Editor

The strategic alliance between the London and Frankfurt stock exchanges should be referred to the European Commission, according to a senior French banker.

Marc Viénot, former chairman of Société Générale and chairman of Paris Europlace, an organisation set up to promote the French capital's role as a financial centre, said the London-Frankfurt agreement "could lead the European Commission to ask itself whether an abuse of a dominant position is occurring."

In an interview with Les Echos, the French business newspaper, Mr Viénot denounced the London-Frankfurt alliance, which seeks to lay the foundations for a pan-European equity market, as "imperialism".

"How can one imagine that two exchanges which represent only a fraction of the European markets should claim the right to construct a single market by themselves, arbitrarily fixing the rules, the technology and the fee structure, and then coldly impose them on others?" The Anglo-German alliance, announced earlier this month, caught French financiers by surprise. The Paris exchange had hoped to set up its own partnership with Frankfurt as a rival to London. Although the London and Frankfurt exchanges have said they would welcome other exchanges in due course, Mr Viénot said there could be no question of Paris accepting the junior role this implied.

Senior German bankers said negotiations with France, on stock exchange co-operation as on so many other subjects, had proved difficult because of the French insistance on a 50:50 share in any joint venture.

An older generation of German managers accepted this for political reasons, and for the same reasons the Bonn government, too, was unhappy with the London-Frankfurt alliance. "Younger German managers do not have the same post-war trauma, and will not negotiate on these terms," said one senior German banker.

Paris's share trading turnover last year was barely 40 per cent of Frankfurt's. Rolf Breuer, chairman of Deutsche Börse, has suggested Paris could take a stake in the new pan-European market roughly half the size of Frankfurt's or London's.

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Change of plan boosts Linklaters

By Robert Rice, Legal Correspondent

The formation by Linklaters and four other leading European commercial law firms of Linklaters & Alliance, a new international legal practice, has catapulted the UK group to the top of the law firm super league.

The new international law firm will have more than 1,900 lawyers working from 28 offices in 16 countries across the globe. In terms of size, only the US firm Baker & McKenzie, with more than 2,000 lawyers worldwide, is bigger.

Yet this was not quite the deal Linklaters wanted when it set out in late 1996 to build a pan-European practice.

Charles Allen-Jones, the senior partner, and Terence Kyle, the managing partner, had identified an urgent need to expand its operations in France and to build strong practices in Germany, Italy and Spain. Linklaters had fallen behind its rivals.

For 10 years, while Clifford Chance and Freshfields built strong practices across continental Europe, Linklaters appeared to sit on its hands, pursuing a "best friends" policy of working with the best available foreign law firms on an ad hoc basis on international deals.

But Mr Kyle now accepts that "best friends" was not a credible long-term strategy. The world of commercial legal services was changing rapidly in response to the globalisation of business and the prospect of Economic and Monetary Union.

Clients, especially the European and US investment banks, were beginning to demand a unified single firm approach to multinational deals and Linklaters could not provide it.

Negotiating alliances and mergers with law firms in all the markets they had identified could have taken forever, so it was with some relief that they welcomed an approach by the Alliance of European Lawyers in March 1997.

When the firms from Germany, Spain, France, Belgium, the Netherlands and Sweden set up the Alliance in the early 1990s they were determined not to have a UK member for fear of it swamping the others.

But as they watched the big cross-border deals and European privatisations fall into the hands of the large US and UK law firms they began to realise their need for US and English law capacity. Linklaters offered both.

From the start of negotiations there were tensions with Jeantet & Associés, the French member of the Alliance. But the real blow came when Uría and Menéndez, the Spanish member, walked away at the last moment, citing fear of Linklaters' hegemony.

Linklaters still has holes to fill in Italy, Spain and France, three of the four markets it identified as the most important. But Linklaters & Alliance's presence in Germany is a big step forward towards its strategic goal. Mr Allen-Jones says it should now become easier to attract firms in France, Italy and Spain to join the group.

Rivals are sceptical. Keith Clark, senior partner of Clifford Chance, said: "We wish them well, but it isn't a firm, it's an alliance of separate law firms."

Others were more forthright. "Germany is good but nobody is really bothered about the low countries and Scandinavia and they haven't got France, Italy or Spain," said one senior partner of a City law firm.

"Oppenhoff & Rädler [the German member] is itself the product of four domestic mergers and its profitability is about half Linklaters'. So they've got to jerk up profits at the same time as getting people to work together. What they'll find is that their economic interests aren't necessarily aligned and conflicts will arise. But it's a good first step."

NEWS DIGEST

TURKEY

Tax reform bill seeks to bolster public finances

Turkey will today adopt its most significant tax reform in more than a decade when Suleyman Demirel, president, signs a bill that is key to putting the country's chaotic public finances on a sound footing. By introducing prison sentences for tax evaders and lowering income tax rates, the package aims to combat tax evasion which costs the budget \$2bn every year, as well as money-laundering. The law brings down income tax from a 25-55 per cent range at present to between 15 and 40 per cent next year.

Passed by parliament late on Wednesday, it is the most important change to Turkey's tax system since Turgut Ozal, the country's liberalising prime minister in the 1980s, introduced VAT 13 years ago. Turkey hopes that regular IMF progress reports will cut borrowing cost by improving its standing with credit rating agencies and lenders.

Zekeriya Temizel, finance minister, hopes the law will encourage the tax-shy to declare their incomes and narrow Turkey's budget deficit. This is forecast this year to reach TL3,993,000bn (\$14.8bn). **Christopher de Bellaigue, Ankara**

CHECHNYA ASSASSINATION ATTEMPT

Slight injury for president

The leader of Russia's breakaway Chechnya region escaped with slight injuries yesterday after a car bomb exploded near his motorcade. President Aslan Maskhadov, who commanded Chechen guerrilla forces in a 21-month war against Russian troops, appeared in public soon after the attack to deny he was seriously hurt. There were no visible signs of injury and he looked healthy.

"I am alive and well," Mr Maskhadov said at his residence in Grozny, the Chechen capital. "My political course will not change at all." He said the latest attempt on his life might have been the work of Russian special forces "acting from afar with the hand of local provocateurs". **Reuters, Grozny**

FORMER IRISH PREMIER SUMMONED

Haughey could face jail

Charles Haughey, the former Irish prime minister, could face a two-year prison sentence when he appears in court in Dublin next week charged with obstructing the government-appointed tribunal into payments to politicians. The 72-year old former Fianna Fail leader was issued with a summons following a seven-month investigation by Ireland's director of public prosecutions. Mr Haughey is at the centre of an investigation of the links between politicians and big business, involving bank accounts in Dublin, London and the Cayman Islands.

The investigation follows revelations that Ben Dunne, an Irish stores heir, provided Mr Haughey with more than I£1m (\$1.4m) – including two separate I£200,000 cheques which Mr Dunne handed to Mr Haughey at a meeting at his county Dublin home. Mr Haughey, having first denied the allegations, told the tribunal he had no exact recollection of the meeting. **John Murray Brown, Dublin**

DESIGNER GOODS

UK seeks to overturn ban

The British government has asked a leading UK supermarket chain to compile a dossier of evidence in an attempt to overturn a recent ruling by the European Court of Justice which bans the sale of certain cut price designer goods.

Nigel Griffiths, UK competition minister, met Tesco and Asda yesterday to discuss the implications of the ban on the import of lower-priced designer goods from outside Europe for resale within the European Union. Both retailers, who have sought marketing advantages by selling designer goods purchased without the brand owner's consent at cut prices, said the meeting was constructive and helpful. Mr Griffiths has asked Asda's chief executive, Allan Leighton, to prepare a case against selective distribution – whereby brand owners can refuse to supply certain retailers. **Peggy Hollinger, London**

WESTERN GERMANY

Annual inflation down to 0.9%

Western Germany's annual inflation rate fell to 0.9 per cent in July, according to provisional figures released yesterday by the federal statistics office in Wiesbaden. The figure, the lowest since 1988, is based on inflation rates for this month from the four western federal states of Baden-Württemberg, Bavaria, Hesse and North-Rhine Westphalia, where the office recorded year-on-year price increases of between 0.8 and 1.1 per cent.

In June, annual inflation stood at 1.2 per cent in the whole of Germany and 1.1 per cent in the western federal states. HSBC Trinkaus, the German bank, expects a national annual inflation rate of 1 per cent or below in July and months ahead, largely because of collapsing import prices. On a yearly average basis, HSBC Trinkaus forecasts German inflation of 1.1 per cent in 1998 and 1.4 per cent in 1999. **Tobias Buck, Bonn**

GIBRALTAR

Britain offers talks with Spain

Robin Cook, UK foreign secretary, has offered to arrange talks between Spain and Gibraltar, Abel Matutes, Madrid's foreign minister, said yesterday. Mr Cook's initiative seeks to smooth Spanish irritation over apparent rebuffs by Peter Caruana, the chief minister of the UK's colony, to conciliatory signals by Mr Matutes.

Mr Matutes has softened Spain's long-standing claim for the re-integration of its national territory with a proposal to replace Gibraltar's colonial status by a shared UK-Spanish sovereignty arrangement over a time frame of at least 50 years. This formula would respect the British nationality of the Rock's 30,000 inhabitants and safeguard their self-governing institutions and fiscal privileges. **Tom Burns, Madrid**

GEORGIA

New negotiations on Abkhazia

Top officials from Georgia and its breakaway province of Abkhazia yesterday began a fresh round of United Nations-sponsored peace talks in Geneva, but a political breakthrough looks improbable. Georgian diplomats said they would focus on securing an agreement allowing some 40,000 Georgian refugees forced to flee from Abkhazia by fighting in May to return to their homes.

The fighting, the worst since the end of the bloody conflict in 1992-93 that followed Abkazia's declaration of secession, resulted in the deaths of 600 people and put into reverse an already disrupted UN-supervised programme for the return of refugees to Abkhazia. Opening the three-day meeting, Liviu Bota, UN special representative for Georgia, said the two sides remained far apart and there was a real risk of renewed fighting. **Frances Williams, Geneva**

هكذا من الأصل

German economist appointed EBRD president

By Anthony Robinson

The power vacuum at the heart of the European Bank for Reconstruction and Development (EBRD) has been filled with the appointment of Horst Köhler as president of the institution, set up in 1991 to speed up the transformation of former communist economies.

Mr Köhler, a 55-year-old economist, worked closely with Chancellor Helmut Kohl as the "sherpa" who smoothed the way for Group of Seven (G7) summits before becoming president of the German Savings Banks Association in 1993. He replaces Jacques de Larosière, who retired in January before the bank's 60 shareholders from 58 countries could agree on a successor.

French hopes of replacing the highly respected financial diplomat with another Frenchman at the head of the EBRD were scuppered by the hostile reaction of other European governments to efforts earlier this year to secure the presidency of the new European Central Bank for Jean-Claude Trichet, the governor of the bank of France.

Collectively, the EU countries are the largest shareholders in the bank and they decide who becomes the president, while the post of vice president and head of banking operations is de facto reserved for a US citizen. Charles Frank, a US banker, has in effect been running the bank for the past seven months.

Mr Köhler takes over on September 1 for a four-year term. He was born during the war in what is now Skierbieszow in Poland and played an important role in shaping Germany's policy towards central and eastern Europe following the collapse of communism.

Mr Köhler stepped up co-operation between the German and Russian savings banks and was personally involved in the settlement of old Soviet debt. He has also been involved in nuclear safety matters.

One of the most controversial decisions facing the EBRD will be deciding whether to finance construction of two new nuclear power stations in Ukraine in return for Ukrainian government agreement to close down the entire Chernobyl nuclear complex.

The bank has suffered an exodus of experienced personnel over the past two years of uncertainty about the bank's future leadership. But shareholders agreed to double its capital to Ecu20bn ($22bn) in 1996 and the bank's loan portfolio now exceeds Ecu10bn, making it the largest single investor in the region. The new president will have to reconcile widely differing views among shareholder governments about priorities of the bank as it moves further east into more risky and less transparent areas.

Greece looks to reform of labour market with one eye on the euro

Public sector unions have been fighting to protect job security and their privileged pension arrangements. Kerin Hope reports

Cafés in Athens are about to lose an informal but important role as neighbourhood job centres for local residents and new arrivals from the islands.

The Socialist government wants to bring Greece's labour market into line with the rest of the EU as it steps up the effort to join the single European currency by 2001.

The government is pushing through parliament a reform package to modernise the labour market. It includes long-awaited measures such as the legalisation of private employment agencies, the introduction of part-time work in the public sector and more flexible overtime and collective bargaining arrangements.

"We didn't have employment agencies because people found jobs through family and neighbourhood contacts, or through connections with politicians," said Miltiades Papaioannou, the labour minister.

"But employers can't find people with specialised skills that way."

As Greece's unemployment rate rises, the socialists are under increasing pressure to create more jobs, especially for women and young people.

For the moment, the large numbers of immigrants from Albania and elsewhere in eastern European mostly work in the underground economy. But they will soon start competing directly with Greeks for jobs.

Almost 400,000 immigrants have registered for work permits under a government scheme to regulate immigration.

The official unemployment rate rose to 10.3 per cent of the workforce in June from 10.2 per cent at the end of last year.

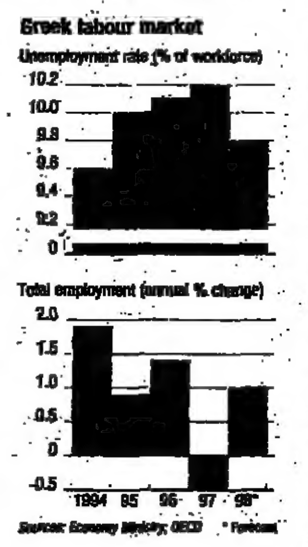
However the rate is estimated at about 15 per cent for women and more than 27 per cent for new entrants to the job market.

In the private sector, the high percentage of small businesses in Greece, with only 10 per cent of companies employing more than 20 people, makes for flexible labour relations "which can compare with anywhere in Europe", Mr Papaioannou said.

But the powerful public sector unions, representing about 20 per cent of the workforce, have been fighting to protect job security and their privileged pension arrangements.

They also want a 35-hour week and an extension of the ban on privatising more than 25 per cent of big state enterprises.

GSEE, the confederation of trade unions which represents about 1m workers, mostly in the public sector, called a 24-hour strike yesterday in protest against the reforms. Transport and bank workers joined the walk-out, but participation was lower than in previous strikes this year.



A bank union official conceded that the strike was "more symbolic than anything else". He said the public sector unions had accepted the principle of part-time work in return for job guarantees at banks slated for privatisation and loss-making transport companies undergoing restructuring.

A demonstrator in Athens gestures during a previous Greek strike. Unions representing about 1m workers, mostly in the public sector, called a 24-hour strike yesterday in protest against the government's planned labour market reforms AP

Confrontations happen in the public sector "because that's where the rigidities are", said Mr Papaioannou, "but to survive in the euro-zone [the single-currency countries, of which there will be 11 to start with on January 1], we have to become more competitive.

"It takes some persuading to convince the unions that if state enterprises go on losing money, their jobs will go."

The drive to boost competitiveness before Greece joins the single currency has already brought changes. To improve management at public sector companies, the Socialists have hired chief executives from the private sector and required them to produce business plans. Workers are to be transferred among government services to reduce overstaffing.

Mr Papaioannou said the introduction of annualised overtime would mainly benefit the private sector. Many Greek manufacturers work on a seasonal basis. Labour requirements fluctuate widely during the year at export-oriented companies such as peach canners, olive oil processors and garment makers.

SEB, the Greek industrialists' federation, has welcomed reforms but said they should go further. The federation said wage differentials were too narrow and restrictions on mass dismissals were a deterrent to foreign investors.

The government has abandoned a clause in the draft law which allowed employers to increase the length of the working day without having to consult the plant union.

"The need for consultation takes away the immediate benefits you'd get from quick decision-making on working hours," said a consultant with the SEB. "And it can't be applied across the board because a lot of Greek companies are too small to have unions."

Collective bargaining is being liberalised in areas of high unemployment such as north-western Greece, where the jobless rate is 15 per cent.

This move is designed to encourage hiring of young workers at lower wages and to try to prevent a drift of unemployed to the cities.

Most new jobs are in service industries which are concentrated around Athens and Thessaloniki. Many small manufacturing plants in provincial towns have shut down and few young Greeks are prepared to earn their living as subsistence farmers.

Banknote copying warning by ECB

By Samer Iskandar in Brussels

Colour photocopiers should be fitted with electronic devices that prevent the copying of banknotes, according to the European Central Bank.

The recommendation is part of a wider effort, led by the ECB and the European Commission, to fight counterfeiting after the introduction of euro banknotes in January 2002.

"Community legislation should be considered which would make compulsory the installation of technical devices in colour copiers ..that would permit the identification of banknotes and impede their reproduction," the ECB said.

European Union experts believe the introduction of euro notes and coins will tempt counterfeiters, especially in the first few months when the new currency exists in parallel with national currencies and people are not yet familiar with its design.

"Colour photocopiers are the most useful tool for counterfeiters," said a Commission expert. "All they have to do is press a button and they get almost perfect reproductions." However, counterfeiters would still need to overcome technical problems such as getting the right paper.

The euro will have more safety features than any other currency, the Commission said.

It said fighting fraud linked to the euro would require a concerted effort involving the ECB, national police forces, member states' legislators, and also participants from the private sector such as banks.

National laws would have to be harmonised to ensure effective deterrence. A Commission official said yesterday that under current national laws deterrence was uneven among EU countries, with penalties ranging from a year's imprisonment to 15 years'.

JAPAN'S LDP OLD-STYLE BEHIND-THE-SCENES INFLUENCE IN THE RULING PARTY SHOWS SIGNS OF GIVING WAY TO POLICY SWAY

The force of the faction starts to fade

By Michiyo Nakamoto in Tokyo

Japan's ruling Liberal Democratic party, it is said, is not liberal nor democratic nor a party.

But the revolt yesterday by a group of LDP parliamentarians alarmed by the possibility that Keizo Obuchi could win the party presidency today, suggests that the rule of the factions which has dominated LDP decision-making, may at last be changing.

The group, comprised of LDP members from various factions, is concerned that victory by Mr Obuchi, who is the least popular of the three candidates among the general public, could hurt their chances of re-election. Members are attempting to rally anti-Obuchi support even at the risk of antagonising their factions.

The move highlights the breakdown in traditional factional loyalties which have been the basis of unity within the huge, at times unwieldy, ruling party.

The LDP, which has ruled Japan for most of the past 43 years, is often described as a coalition of parties. When a young ambitious Japanese decides to enter politics, he (there are few shes) will almost certainly want to be in the LDP. Having made that decision, he has little choice but to join a faction. The faction leaders share out all party and parliamentary posts and determine the advancement of politicians to ministerial posts. Even more important, they are the sources of campaign funds which, in the absence of much ideological debate in Japanese politics, has long been the key to electoral success.

Candidates for the party leadership would have been chosen by consensus by each faction. The contest would be held between the factions and would be determined largely by which faction had the greatest clout. Cabinet posts would be allocated according to faction, leading to frequent furious behind-the-scenes horse-trading.

Even today, factions determine all personnel matters and allocate offices in the Diet (parliament). Taro Kono, a young LDP member of the lower house, did not know where his office in the Diet was until just before his first day at work. When he called the LDP headquarters to inquire, he was told to ask his faction, even though he did not belong to one.

"That is the only reason I joined the Miyazawa faction," he says. He chose that faction not for any reasons of policy but because Mr Kiichi Miyazawa, the former prime minister, was his go-between.

The power of the factions has undoubtedly started to wane. This is partly the result of a change in the electoral system. Under the old system of medium-sized constituencies, the LDP often fielded several candidates in a single district. As a result, candidates competing against others from the same party had to rely on the support and funds of their faction, rather than the party itself.

'The glue that will keep the factions together is going to change from money to influence to policy'

But the switch this decade to single-seat constituencies means that LDP politicians no longer compete against each other and factional support in elections is less important.

Just as important is a change in political funding rules which has meant that the party secretariat controls more funds than the factions. "Political funding is what kept the factions together," says Keith Henry, Research Associate of the Massachusetts Institute of Technology Japan Program.

Public opinion is also playing a part. The LDP has faced mounting public criticism for the lack of transparency in its decision-making process.

LDP parliamentarians based in urban areas are particularly concerned that unless the party changes its style and lives up to its name, voters will turn their backs on it in elections for the lower house due by 2000.

Seiroku Kajiyama and Junichiro Koizumi, two of the candidates in the race for LDP president (and therefore prime minister), are counting on the cross-faction support of party members who are prepared to break ranks with their factions to vote for someone they believe can bring strong leadership to the top job and provide the LDP with a fresh image.

But the cracks that are beginning to appear in factional unity suggest a realignment along new lines, rather than the disappearance of factions as a force. "It is a turning point," believes Rei Shiratori, director of the Institute for Political Studies in Japan.

"The glue that will keep the factions together is going to change from money to influence to policy," notes Mr Henry. But even that is going to take a very long time, he says.

Debt markets unsurprised by Moody's move

By Edward Luce in London

The decision by Moody's Investors Service yesterday to place Japan's sovereign credit rating on review took nobody in the debt markets by surprise.

The New York-based credit rating agency, which was criticised last year for completely failing to anticipate the Asian financial crisis, looks likely to downgrade Japan from its top-notch Aaa credit rating.

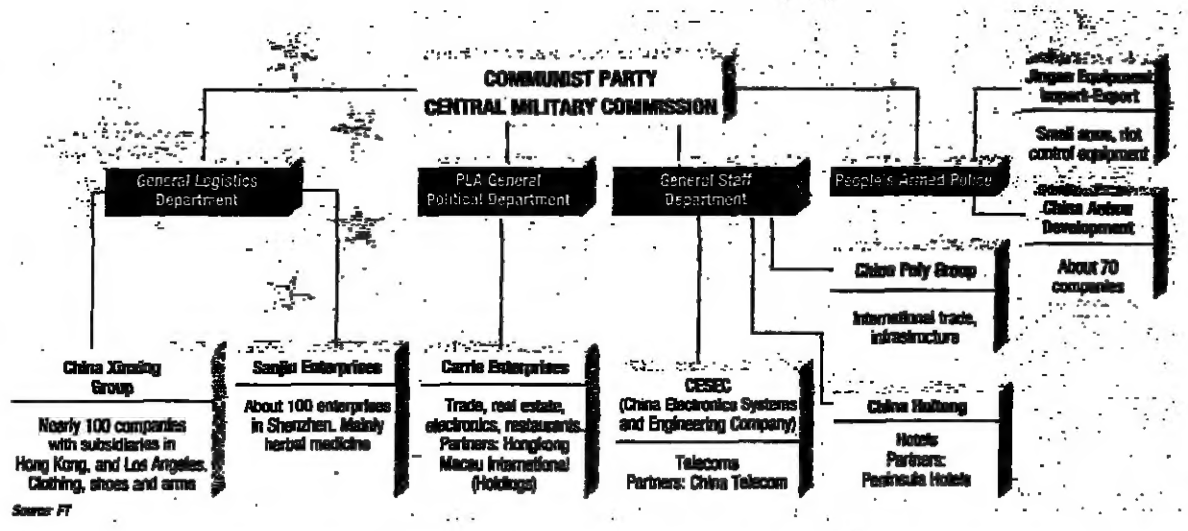
The move, which would put Moody's ahead of competitors Standard & Poor's and Fitch IBCA, is seen as an attempt to restore its reputation in the markets for timely action. Yet in the last few months, Japanese paper has been trading at sufficiently low levels to suggest the financial markets had long since revised their view of Japan's creditworthiness.

"Moody's is trying to get ahead of the curve by downgrading Japan before the other credit rating agencies do," said an investment banker in London yesterday. "But in the minds of traders Japan should probably be rated at several grades below triple-A, not one below."

This development is a problem for Moody's and its rivals because until recently the markets had moved in lockstep with the rating agencies: in other words, the premium at which a country's debt was trading in the secondary markets would usually reflect the country's sovereign credit rating. However, since the currency crises hit south-east Asia last year, risk premiums and credit ratings have diverged.

War by other means for China Army Plc

By James Kynge, James Harding and John Ridding



Source: FT

Chinese President Jiang Zemin's order this week that the *People's Liberation Army* should relinquish its vast and corrupt business empire was one of the most daring statements from a leader who has often seemed to lack the decisiveness of his charismatic predecessors, Mao Zedong and Deng Xiaoping.

Taken at face value, the task he has set himself amounts to nothing less than a repositioning of the army which brought China's Communist government to power in 1949 and has remained the font of political influence ever since. Mr Jiang's blunt criticism of the People's Liberation Army's (PLA) involvement in smuggling was a signal that Beijing would no longer tolerate the existance of a military above the law.

The order to divorce the PLA from its commercial interests appeared to build on other recent moves to redefine the army's role. In September last year, he chose the first standing committee of the all-powerful politburo since 1949 not to include a member of the military.

He also announced plans to cut the 3m-strong PLA by 500,000 as part of efforts to create a more professional fighting force.

"It is becoming clear that the grand design is to create eventually an army which is answerable to the state and the laws of the state, and which is focused on defence and not profiteering," said on[illegible] [illegible]omat in Beijing.

S[illegible] [illegible]ommentators said it was [illegible] testimony to Mr Jiang's increasing influence that he felt secure enough to risk clipping the military's wings. Other analysts believed that his aims might be considerably more modest than stated.

"This is just a stop sign. It is supposed to warn the army to stop smuggling and curb their excesses" said one Chinese analyst in Beijing. Smuggling of oil products, cars, cigarettes, machinery, textiles and a wide variety of other products has hit China's domestic industries this year and may be costing as much as RMB100bn ($12bn) in lost customs revenues, officials said.

Wang Shan, a respected political commentator in Beijing, said that the army's interests were too large and too deeply entrenched for them to be shut down any time soon. "I don't think this will work. There are too many loopholes," he said, noting that Mr Jiang did not give a date for the closure of PLA businesses or say how the army's assets would be divested.

A member of a think-tank connected to the PLA expressed bitter frustration with Mr Jiang's move, which, he said, was doomed. "The government's budget is so paltry, there has to be some degree of soldier business going on," he said.

The commercial tentacles of China's military reach all over the country and have started to spread abroad. By some estimations, a network of 20,000 or so enterprises with connections to the military provide about one third of the PLA's operating expenses.

The order to divorce the PLA from its commercial interests appeared to build on other recent moves to redefine the army's role

But most of the wealth is controlled by several large holding companies involved in everything from commercial satellites to herbal medicines. The PLA general logistics department has nominal control over all business activities.

In Shanghai, for example, Poly Industries, the investment arm of the PLA, was one of the chief developers of the new Shanghai Stock Exchange. The company has other undisclosed property interests in the city as well as a substantial minority stake in Shanghai Ocean Aquarium, a $55m underwater park project being built in association with Singaporean investors and due to open at the end of next year.

Another business with military backing in Shanghai is the Yanan Hotel, which opened in 1962 as a hostel for army officers but has since become a commercial three-star hotel. The neighbouring J.J.'s discotheque was also backed by the PLA before it was closed down for safety reasons.

A representative at the Yanan Hotel yesterday said: "I do not think the ban will affect our business." He added that the hotel came under the jurisdiction of the regional military command, one of the highest authorities in the PLA hierarchy, and that he expected only low-ranking military involvement in business to be closed down following Mr Jiang's order. Across the country, there are estimated to be more than 1,500 PLA-owned hotels, ranging from converted army guesthouses to five-star luxury hotels.

But despite the relatively calm reaction among PLA shares in China, there were some signs of disquiet. Shares in Poly Investment Holdings, a Hong Kong-listed arm of China Poly Group, one of the PLA's main business divisions, saw its shares fall more than 8 per cent yesterday. The plunge suggested investors took seriously Mr Jiang's demand for the military to curb its business activities.

These fears are partly prompted by the presence of PLA-linked securities companies. "These companies have a lot of red chips or H-shares on their books, so there is a worry these investments will have to be dumped," said one Hong Kong broker. He said the first sign of President Jiang's crackdown was last week's revelation of an investigation into J&A Securities, one of China's biggest securities companies. The PLA's Guangzhou district is thought to be one of the biggest shareholders in J&A.

There was also uncertainty over the possible political fall-out from Mr Jiang's move just as China's top leaders prepare for a summer recess at Beidaihe, a seaside resort where power is brokered and new policies discussed. The order also coincides with a halving of the size of the central government's bureaucracy.

"They have upset the bureaucracy by saying they are going to cut half their jobs. Now they are upsetting the army by saying they cannot do business. Who is going to like them?" asked one foreign analyst.

Asean's problems spill out in the open

As Manila prepares for the annual meeting of the organisation's foreign ministers, a tense debate on its future is shaping up. Ted Bardacke and Justin Marozzi report

It has been a difficult year for the member countries of the Association of South East Asian Nations (Asean), and not just economically. Of its nine members, seven have gone through a change of leader or regime. A prospective 10th member, Cambodia, fell victim to a coup.

The organisation, once full of confidence, some would say hubris, also suffered. Asean was unable to stem the region's financial crisis, was powerless to disperse the fire-induced haze that covered much of the region, and fought continual battles with the European Union and the US over the admission of Burma to its ranks in July last year.

"As we have suffered economic downturn, and as some leaderships in the region have been affected, Asean's influence and contribution to regional affairs have been diminished," says Surin Pitsuwan, Thai foreign minister.

Now the consequences of this past year of turmoil are spilling out into the open. As Manila prepares for the annual meeting of Asean foreign ministers today and over the weekend, a fraught debate over the future of the organisation is shaping up.

Some countries, most notably Thailand and the Philippines, are calling for Asean to modify some of its most cherished principles.

They suggest Asean address difficult regional and domestic issues head-on, via a policy of "flexible engagement", rather than hide behind the niceties of its cornerstone principle of non-intervention.

Cambodia and Burma have tested the limits of those old ways. On Sunday, Cambodia is due to hold elections, which, though far from perfect, are a big step toward bringing political stability to a country that just a year ago was mired in the bloody aftermath of a coup.

Though not a member of Asean – its proposed membership was scuttled by the coup – Asean foreign ministers have been spearheading and co-ordinating international efforts to enact the complicated formula allowing the elections to happen.

Next month, Burma will mark the 10th anniversary of its drive against pro-democracy protesters. As that date approaches, the Burmese junta has launched a new nationwide crackdown on members of parliament elected in 1990, ostensibly out of fears that parliament will try to meet for the first time.

Asean's policy of quietly but actively pushing the Burmese generals to finish their new constitution and transfer power to a civilian government has achieved nothing.

The result has been a headache for the organisation: annual meetings between the European Union and Asean have been scrapped in a dispute over Burmese participation. The US, after initially opposing Asean membership for Burma, said it looked forward to having Asean take the lead in promoting political change there. Now, Asean does not seem up to the challenge.

When some Asean foreign ministers recently called on Burma to use restraint in its dealings with opposition elements, Burma labelled such statements "presumptuous" and "against the inherent and ultimate objectives of Asean".

Matters "inherent" and "ultimate" are one thing. Another is the particularly insular Asean style of negotiation and discussion, which values discretion and non-confrontation.

Some are beginning to criticise the organisation's consensus decision-making process as too vapid and plodding, leading to decisions based on "the least common denominator", as one senior Asean diplomat puts it. "High growth was always our trump card and we lost it," the diplomat says. "So Asean is searching once again for meaning. This is a struggle for the soul of Asean."

The response from Asean's heavyweight, Malaysia, as well as its newcomers, Vietnam, Burma and Laos, has been swift and negative. Tinkering with Asean's policy of quiet diplomacy would "create uneasiness" with the organisation, said Abdullah Ahmad Badawi, Malaysia's foreign minister.

"If there are problems, we will overcome them our way, in a manner which does not undermine the dignity of anyone and shows we are sensitive over any incident which occurs."

Time was when the "grandfather" figure of Indonesia's ex-President Suharto, the only leader remaining from the days of the founding of Asean, discouraged too much new and freer thinking, for instance, "flexible engagement".

Because Mr Suharto was afraid of opening Indonesia up to attacks from neighbours on the question of East Timor, and its annual forest fires which cast a pall over much of the region, such new ideas would have been given short shrift.

In any case, Rodolfo Severino, Asean's secretary-general, notes the difficulty involved in creating a mechanism that would allow national governments to fix problems that spill over into the region as a whole.

"Issues are regional, although correction is national. There are few instances of Asean taking action on specific domestic issues," he says.

Proponents of change envisage a number of areas of potential co-operation – drugs, environment, labour migration, public health and combating the trafficking in women for prostitution – that would benefit from a regional approach demanding policy changes and actions on a national level.

Still, what is behind this debate is the fact that some Asean member countries have signalled firmly they intend to speak out and criticise other member countries, thus breaking Asean tradition by example.

"When a country chooses a policy of flexible engagement, no one can stop them. That is their sovereign right," says Domingo Siazon, Philippine foreign minister. "On important issues such as flexible engagement, it is difficult to have unanimity. It doesn't have to be Asean policy."

Some fence-sitting diplomats caution against the risk of open criticism, saying Asean would cease to speak with one voice and thus have any effectiveness undermined. "This could be positive. But it is also risky. Over time, the group could break up or lose control over this issue," said one.

Open criticism "would only lead to hurt feelings and bitterness", says Ajit Singh, a former Asean secretary-general. During his five-year stint, Asean was at the top of its game, expanding its global influence. "All discussions", he adds, "were conducted in good faith and have always ended happily on the golf course."

Times have changed and the relaxed game is over, replies Mr Siazon. "After 31 years, we're now adults and should be able to discuss our problems openly. Don't tell me we should all keep quiet."

Additional reporting by Sheila McNulty in Kuala Lumpur

NEWS DIGEST

FOREIGN INVESTMENT

Kuala Lumpur removes race-based equity quotas

Malaysia yesterday took its most comprehensive steps to attract investors to finance economic recovery by removing race-based equity quotas and easing restrictions against foreigners in certain sectors.

But economists said further initiatives were required to draw interest from foreign investors for the more than M$50bn (US$12bn) the government calculates is required to revive the economy.

Daim Zainuddin, minister in charge of economic recovery, played down the politically sensitive decision to relax the 30 per cent minimum equity requirement that Malays must hold in all Malaysian companies. The rule, which was the cornerstone of a policy to give the Malay ethnic group financial parity with the country's Chinese, has troubled foreign investors, who believe it stifles competitiveness.

Mr Daim's 191-page recovery plan is to set the tone for a road show by Malaysian leaders to the US and Europe later this month to sell bonds. Malaysia wants to spend M$12bn on infrastructure and social development, M$25bn buying non-performing loans and assets from financial institutions, and M$16bn recapitalising banks.

But it will be a tough sell, given that it has taken a year for Malaysia to come to grips with the crisis amid charges by Mahathir Mohamed, Malaysian prime minister, that it resulted from a conspiracy by foreigners to undermine the economy. If foreigners do not buy the bonds, however, Mr Daim said the money could be sourced locally.

As part of the plan the government will assist companies deemed of national interest – those benefiting a wide, cross-section of the population – and strategic interest – those making important contributions to industries such as automotive, aerospace and shipping, Mr Daim said. "The problem we face is serious," he added. "We are not in a denial mode about our problems." **Sheila McNulty, Kuala Lumpur**

INDIA-PAKISTAN DIALOGUE

Hopes for better relations

The US yesterday expressed the hope that next week's meeting between the Indian and Pakistani prime ministers, the first since their nuclear tests in May, would help improve relations.

Strobe Talbott, US deputy secretary of state, ending a five-day visit to New Delhi and Islamabad, said the US was "hoping for the best" from the meeting in Colombo between Atal Bihari Vajpayee, India's prime minister, and Nawaz Sharif, his Pakistani counterpart. "We think it's very good that the direct Pakistani-Indian dialogue is to resume," he said. "We'll be watching and we'll be supporting in every way we can." Mr Talbott's remarks reflected a keen US desire to nudge the two countries towards resuming peace talks, which stalled last year, western diplomats said.

Mr Talbott's visit sparked scepticism among Pakistani nationalists, many of whom suspect the US of working towards bringing Islamabad to ratify the Comprehensive Test Ban Treaty. Part of the criticism has been triggered by the apparent secrecy surrounding the talks.

Mr Talbott defended the choice of quiet diplomacy. "When we are in a position to characterise in more detail what's going on between us, we will do so. When there's a result of our discussions, you will all know."

Western diplomats said Washington's efforts appeared to be primarily focused on reducing tensions between the two sides, rather than resolving disputes such as in the Himalayan state of Kashmir, scene of two of the three wars between India and Pakistan.

A senior Pakistani official cautioned that without some movement on the division of Kashmir, "it's difficult to imagine the fundamentals changing, even if the atmospherics improve in the near term". **Farhan Bokhari, Islamabad**

SOUTH KOREAN LABOUR

Union group calls off strike

A militant South Korean trade union group yesterday called off a general strike over job losses despite an announcement the unemployment rate in June climbed to 7 per cent, the highest in two decades.

The Korean Confederation of Trade Unions said it had postponed the strike after winning concessions from the government, including official hearings on the nation's economic crisis, an investigation into unfair job dismissals, and a halt to the prosecution of union leaders for illegal strikes.

The concessions angered the Korea Employers' Federation, which said it would boycott meetings with the government and union over labour reforms because of the "one-sided agreement" with the KCTU.

The KCTU, which represents 600,000 in Korea's main heavy industries, threatened to resume industrial action if Hyundai Motor, the nation's largest carmaker, went ahead with plans to cut 2,700 jobs by the end of the month, which would be the first mass redundancies among conglomerates.

It also demanded job security for workers of state-run enterprises, which are scheduled to be privatised over the next two years.

The postponement of the strike is seen as a setback for the KCTU, which recently held two brief general strikes that failed to attract much public support. KCTU members are among the highest paid in Korea and have not suffered many job cuts, which have been concentrated among small, non-unionised businesses. The government yesterday warned that further labour strikes could frighten foreign investors.

The National Statistical Office reported that the number of jobless had grown to a record number of 1.53m in June, while the unemployment rate had nearly tripled from 2.5 per cent a year ago. **John Burton, Seoul**

LENDING RESOURCES RUSSIAN BAIL-OUT EXPECTED TO MAKE FURTHER INROADS

IMF funds at 'lowest level in 15 years'

By Nancy Dunne in Washington

The International Monetary Fund says available lending resources are at their lowest levels in 15 years and are expected to sink further as the Russian bail-out continues, according to a congressional report released yesterday.

The report, issued by the General Accounting Office, the investigative arm of Congress, was requested by Senator James Saxton, chairman of the congressional joint economic committee and a critic of the IMF.

Senator Saxton contends the IMF has sufficient resources without the $18bn authorisation for new funds which the Clinton administration has requested.

The report says that, as of July 20, the IMF had about $130bn in currency holdings in its general resources account. Of this about $70bn has already been used and $17bn committed for other loans. IMF officials say only about $10bn-$15bn of the remainder can be used in an emergency because it must set aside funds in case member countries need them.

The report reveals the IMF believes its resources to be so low that only $2.9bn of the $11.4bn intended for Russia, in a loan approved last Monday, will be provided from its general resources account. The remainder will come from an account called General Arrangements To Borrow (GAB), set up by 11 industrialised countries.

The GAB is rarely used – it has been activated only nine times in 36 years, with the US the last country to draw on it in 1978 to help stabilise the dollar – and it can only be deployed for an "exceptional situation" when the stability of the international monetary system is at risk.

The IMF has made other arrangements to borrow in the past through supplementary financing facilities. In 1985 these borrowings equalled almost 42 per cent of outstanding IMF credit. However, the report states, Fund officials later grew concerned about "the consequences of having the IMF, which seeks to stabilise international capital markets, rely on those markets for funding.

The outcome of Bill Clinton's request for new funding will not be known until September. Republicans are split, with Newt Gingrich, House speaker, pushing for IMF "reform" and most of the authorisation.

Test fiasco exposes teachers in wrangle over standards

US education stumbles into spotlight, writes **Victoria Griffith**

Education is coming under the US political microscope – and so far the nation's 2.7m teachers are bearing the brunt of the scrutiny.

Senator John Kerry, Massachusetts, recently lambasted the qualifications of public school teachers in a speech seen as the possible launch of a campaign for president.

"We must find teachers who are able to answer simple math and literacy questions," he said.

After a staggering 59 per cent of prospective state teachers failed a basic skills examination, Paul Cellucci, the state's governor, is staking his re-election bid on a call to toughen standards.

Teachers sense they are under attack but seem unsure how to cope. A proposed merger between the country's two largest teachers unions – the National Education Association and the American Federation of Teachers – fell flat earlier this month after the two failed to agree on a common strategy.

Adding to the acrimony is the desperate need in the US for new teachers. Over the next eight years, 2m teachers will reach retirement age. President Bill Clinton's plan to hire 100,000 new instructors, in an attempt to shrink class sizes, may add to hiring pressure. Exactly what skills and credentials the new teachers should possess is a point of bitter debate. While recruiters say there is no shortage of candidates, critics are worried that the schools will be forced to lower standards to fill positions.

US public school teachers have come to be seen, fairly or not, as a barrier to improving education. While 57 per cent of the public supports national standard testing for students, for instance, some 69 per cent of the teachers reject it, according to the academic association Phi Delta Kappa. Teachers have also rejected popular initiatives such as longer school hours.

The most serious accusation against public school teachers is that many are not qualified for the job.

This year, for the first time in Massachusetts, prospective teachers were examined to see how literate they were and to measure their skill in mathematics, as well as the extent of any specialist knowledge. Most candidates failed, with many either unable to recognise that 250,000 was the same as a quarter of a million, or that the word "annually" is redundant when preceded by the phrase "each year".

The state teachers union, the Massachusetts Teachers' Association, defended its members. "It was the first time the test had been given, and its validity is questionable," said Andrew Lynebaugh, association spokesman.

Increasingly, critics blame the schools of education for allowing poorly qualified teachers to graduate. America's teaching profession is heavily unionised and most states still require public school instructors to have an education degree.

A study by Richard Murnane, a Harvard professor, concluded that high school graduates with the strongest academic skills were least likely to apply to the schools of education. John Silber, a former president of Boston University, accuses the education programmes of spending too much time teaching methods of instruction and not enough boosting the expertise of their students.

Senator Kerry has proposed loosening standards for certification to include candidates graduating from other programmes. Under current certification methods, even Michael Jordan would have a tough time getting a basketball coaching job at a public school.

Teachers complain that they are a scapegoat for a system that demands too much for too little. The average annual salary of a teacher was $38,346, in 1996, according to the American Federation of Teachers. This is well below the salaries they might earn in many other professions. Teachers are also asking for more support in dealing with special needs children who, under US law, must be placed in mainstream classrooms. Some 57 per cent of public school teachers say these students often disturb classes, according to the Phi Delta Kappa study.

"In our class we have two autistic children; two emotionally handicapped kids, one who has been sexually abused; a few others with learning disabilities; and one who is physically disabled," says Laura Washington, a teacher's assistant in South Bend, Indiana. "It's not the best situation for learning for the others."

Supporters of the teachers say they are concerned that the profession's poor image will frighten away the most qualified applicants. Their critics say it is important to be open about shortcomings.

"The quality of teachers is a problem everywhere," says Nina Shokraii, education analyst at the conservative think tank The Heritage Foundation. "It stands to reason that if they were better at their jobs, our children would be performing better on standardised tests."

John Kerry: putting focus on teachers' qualifications

Plan to help US poor buy homes

The Ford Foundation yesterday announced a $50m grant to help low-income families in the US buy their own houses, under a commercially backed mortgage finance scheme that is expected to provide $2bn in affordable mortgages over the next five years, writes **Tony Walker in New York.**

The US philanthropic organisation has joined Fannie Mae, the nation's largest mortgage finance institution, and Self Help, a North Carolina community welfare group, to provide finance for an expected 35,000 homebuyers nationwide over the life of the pilot programme.

The scheme is aimed at lifting home ownership among groups, principally minorities, whose incomes are insufficient to qualify for traditional mortgage financing. It could also encourage commercial institutions to provide mortgages to low-income families by demonstrating that such business involves acceptable risk.

"This effort has the great potential to start a cycle of investment that will not only benefit homeowners with less savings and income, but also their communities. It could expand business for banks as well," said Susan Berresford, president of Ford Foundation.

NEWS DIGEST

COLOMBIAN ECONOMY

Unemployment rate hits a 22-year high

Unemployment in Colombia has reached a record level since measuring techniques were standardised 22 years ago, and now ranks among Latin America's highest.

According to figures published by the country's national department of statistics, the level of unemployment reached 15.8 per cent of the workforce in June, up from 14.5 per cent at the end of the first quarter. The total number of unemployed is just over 1m, an increase of 98,000 compared with figures for March.

"The figures confirm Colombia occupies one of the top places in terms of unemployment levels in Latin America," said Juan Carlos Feres, of the Economic Commission for Latin America in Chile. **Adam Thomson, Bogotá**

BRITISH COLUMBIA

Native Indians clinch land deal

British Columbia and a native Indian group have struck a precedent-setting land treaty under which the group will gain ownership of about 2,000 sq km in exchange for surrendering all future land claims.

The controversial agreement, the result of years of negotiations, is the first modern land treaty in British Columbia. In recent years the province has suffered because of business uncertainty over the legal status of large parts of it. The treaty must still be approved in a plebiscite by the Nisga'a Indians. Under the treaty's terms the Nisga'a would be granted the right to tax, regulate land use and administer justice on their territory, located in the province's north-west. The treaty would, for the first time in Canada, enable a native group to sell its land to a third party. **Scott Morrison, Toronto**

US SENATE VOTE

Internet gambling ban passed

The US Senate yesterday voted to ban most forms of gambling on the Internet to block rapid growth of unregulated casinos and sports-betting syndicates. The bill covers most interactive gambling, but exempts state lotteries and games such as "rotisserie" sports leagues that users pay a fee to participate in but do not formally gamble on. The Senate rejected an amendment to exempt Native American casinos.

Proponents of the bill, sponsored by John Kyl, an Arizona senator, said the ban was needed to tighten existing restrictions on using the telephone system for gambling and prevent children from being lured into inappropriate web sites by unscrupulous operators. **Mark Suzman, Washington**

COMPENSATION AGREED

IBM to pay Mexico City $37m

The Mexican subsidiary of International Business Machines has agreed to pay $37.5m compensation to the Mexico City government after three IBM officials were accused of fraud in a bungled contract to build a police computer system. The settlement follows a damaging case in Argentina where an IBM subsidiary was accused of bribery in 1994 to win a $249m contract. **Henry Tricks, Mexico City**

Mayor who made the mullahs see red

David Gardner on why Iran's conservative religious leaders moved against the reformist mayor of Tehran

Karbaschi addressing the court last month. Supporters predict a comeback for the man who masterminded the sweeping election victory last year of moderate President Khatami AP

Gholamhossein Karbaschi, the mayor of Tehran jailed yesterday for embezzlement, is the most emblematic reformer to have emerged in post-revolutionary Iran in the past decade.

It was he who provided the strategy and the organisation behind the electoral triumph of President Mohammad Khatami in May last year – a landslide in favour of reform on a scale the regime's hardline theocrats could not have foreseen in their worst nightmares.

Mr Khatami, with the promise of tolerance and pluralism, and government accountable to civil society under the rule of law, won 70 per cent of the popular vote, burying the candidate endorsed by Iran's principal leaders.

Stunned by their defeat, the conservatives grouped around Ayatollah Ali Khamenei, the Supreme Leader, have taken a year to react, and most Iranians appear in little doubt why they have singled out Mr Karbaschi.

A newspaper cartoon widely circulated in Tehran since the mayor was arrested in April depicts the 45-year-old Mr Karbaschi in prison garb, with his convict's number as 2-3-1376 – the date in Iran's Islamic calendar of President Khatami's victory.

"Karbaschi was the pioneer of real reformist thinking in this country," says a leading Iranian banker. "He has been very bold and very business-like. He undertook the task of rebuilding the city, and without any call on public funds but subsisting on [Tehran's] own revenues."

A junior minister allied to President Khatami says: "It is hard to find anyone who really believes that Mr Karbaschi is guilty of the charges against him." He points out that when Ayatollah Khamenei ordered the mayor's release on bail in April, responding to the threat of mass demonstrations against the judiciary as well as Mr Khatami's intervention, the political core of the case was exposed. "If it was not a political case, there would have been no need for the Leader [Mr Khamenei] to get involved," he said.

The proven case against Mr Karbaschi is his success, in transforming Tehran for its 10m populace over the past nine years and, before that, restoring the old Persian capital of Isfahan.

A former seminary student in the holy city of Qom, he put aside his turban and went to Tehran to study mathematics in 1972. Jailed by the Shah for student activism, he was talent-spotted by an aide to Ayatollah Ruhollah Khomeini after the 1979 revolution, and made governor of Isfahan after a spell in charge of state broadcasting. From there he became mayor of Tehran.

In both cities, but especially Tehran, he became enormously popular, and built up effective grassroots networks as well as powerful intellectual support. The teeming capital has changed beyond recognition, with new freeways and much-reduced pollution, scores of new parks, gardens watered by mountain rivulets, cultural and youth centres, concerts and literary competitions.

Mr Karbaschi's methods, however, have been heterodox to a degree which challenged the material as well as ideological interests of the Islamist revolutionary elite and their trader allies in Tehran's Bazaar. This made him vulnerable.

He imposed various taxes, especially on real estate developers – a significant economic interest of the mullahs and bazaaris. Even his supporters admit he created a so-called "air tax", whereby constructors who built above the permitted high-rise level in the city had to pay for public and leisure amenities such as parks.

Just as challenging to the theocrats, he pioneered the issue of municipal bonds, getting Grand Ayatollahs from Qom to endorse "participation certificates" – bonds where the return to the investor comes supposedly from the profits of a project rather than from interest payments, which are proscribed by Islam.

But well before he threw in with Mr Khatami and the reformist cause, Mr Karbaschi had built up a formidable – and modern – political and media machine. He was and remains the centre of what was known as the G6 faction of technocrats and is now the Islamic Republic's first legal political party, the Servants of Construction, the second largest parliamentary grouping.

This grew up under the protection of former president Hashemi Rafsanjani, and includes his daughter, the MP Faeza Rafsanjani, and Mohsen Nourbakhsh, the US-educated governor of the central bank.

Eight years ago, Mr Karbaschi shook up a media world dominated by factional mouthpieces with the launch of Hamshahri (the Citizen), now the country's leading newspaper.

One senior official describes the paper as the harbinger of the Islamist democracy the Khatami government is trying to create, "a real conduit for the masses where you could read about the aspirations and hopes of society, the real problems and tangible needs of the individual. It established for the first time that ideas of individuals could be communicated to others via the media, that people had a voice."

On the anniversary this May of Mr Khatami's election, tens of thousands of Iranians packed into Tehran university to fete the president, but constantly interrupted him with calls for the resignation of Ayatollah Mohammad Yazdi, the head of the judiciary behind the Karbaschi trial. Televised proceedings of the trial have since then been eclipsed only by World Cup matches.

There is much speculation about what happens next. Though some mud may have stuck, Mr Karbaschi's prestige has undoubtedly been enhanced, and there are fears of renewed street clashes. The mayor is also known to possess extensive dossiers on corruption and illicit land deals by senior figures in the regime, which early on in his trial he threatened to make public. All this, some officials argue, points to a face-saving compromise being arranged between Mr Khatami, Mr Khamenei and Mr Rafsanjani, who is still a pivotal player in the power structure.

Be that as it may, Mohammad Atrianfar, the editor of Hamshahri, is no doubt about the mayor's future. "Karbaschi may be ousted as mayor but his political identity will be strengthened. He will surely remain a hero in public eyes and he will be saved for the future. He'll come back."

World finance body urged

By Laura Silber in New York

The UN should help create a world financial organisation to regulate international standards for financial management and capital flows, a group of experts yesterday told the UN's Economic and Social Council.

They said a world financial organisation, on the pattern of the World Trade Organisation, should "review, establish and monitor international principles and practices... undertaken presently by ad hoc public and private groups with limited membership".

Nurul Islam, chairman of the UN committee for development planning, a UN think tank, said the recent Asian financial crisis had shown the need for supervision – to create a body that would monitor the situation, deal with the consequences of capital-flow volatility, and derive lessons from the crisis for the future international system. In the 40-page report, the committee said: "The creation of a global financial market has not seen a parallel development in global regulatory practices or international safety nets. This constitutes a major gap in the international system."

Mr Islam said the WFO would devise "acceptable forms of regulation for short-term capital movements to complement national measures and to monitor the application of international guidelines for short-term lending and borrowing by private creditors and borrowers."

Western diplomats were sceptical. "Where markets fail, there is obviously a need for governments to provide some sort of safety net to protect investors and preserve the world economy. But there's a fine line between monitoring a functioning market and interfering to the extent that it undermines market efficiency," said one diplomat.

Lockerbie suspects 'accept US plan'

By James Buxton in Edinburgh

The two Libyans accused of the Lockerbie bombing would accept a US and British proposal of a trial in The Hague under Scottish law if the conditions under which it was held were fair, their Libyan lawyer said yesterday. But he said UN sanctions against Libya would have to be lifted before the two men would hand themselves over.

The sanctions, including a ban on flights to and from Libya and an embargo on the sale of some oil equipment, were imposed after Libya failed to hand over the two suspects in the bombing of Pan Am flight 103 in 1988, in which 270 people died.

Earlier this week the US and UK governments indicated that they might soften their insistence that Libya hands over the two men for trial in Scotland or the US under Scottish or US law. But so far neither western country has clarified what kind of trial in The Hague they would accept.

Ibrahim Legwell, the lawyer who represents Abdel Basset Ali Mohmen al-Megrahi and Lamen Khalifa Fhimah, both intelligence agents, said: "It is natural that we accept a trial in The Hague under Scottish law if the conditions for a fair trial are provided to protect the rights of the two accused pending, during and after the trial."

In London the Foreign Office pointed out that Mr Legwell was the lawyer of the two men and was not speaking for the Libyan government. It said the UN sanctions resolution of 1992 requires the Libyan government to surrender the two men to the US or UK governments.

Mr Legwell's was the first Libyan reaction since the US and UK governments said this week they had begun discussions some months ago on new proposals for a trial in The Hague.

Iranian long-range missile test worries the US

By Gerard Baker in Washington and Judy Dempsey in Jerusalem

The US expressed concern yesterday at the successful testing by Iran of a missile able to hit Israel or Saudi Arabia as well as US forces in the Gulf.

The White House said US intelligence had detected the launch on Wednesday of a Shahab 3 missile with a range of about 800 miles, similar to a North Korean RoDong missile.

Israel yesterday called on other countries to step up measures to stop the flow of nuclear capability equipment to Iran, warning it could "destabilise" the region.

"This testing by Iran just proves what we have said all along about Iran's efforts to acquire nuclear capability," said Aviv Shir-On, foreign ministry spokesman.

Yitzhak Mordechai, defence minister, warned that Israel would "do whatever it takes" to defend the country. According to western defence experts, Israel has a nuclear weapons stockpile, although it has never officially declared it has nuclear capability. Mr Mordechai added that Russia should "stop all the support it is giving Iran".

There is concern that Pakistan, which recently carried out several underground nuclear explosions, could become a supplier. Iran is known to have been working on developing a nuclear warhead but it is believed to be years away from building and testing such a weapon.

US intelligence experts have believed for some time that Iran has bought materiel from North Korea and this week's launch seemed to confirm their suspicions.

But the US seemed anxious to play down concerns that the launch might undermine the recent rapprochement between the US and Iran. Mike McCurry, White House spokesman, suggested the missile would not alter the balance of power in the Middle East, and would not derail continuing US efforts to open avenues of communication with Tehran.

WORLD TRADE

Azerbaijan rejects BP pipeline offer

By Robert Corzine in London

Aliyev: wants all 12 consortium members to build pipeline

British Petroleum and Statoil, the Norwegian state oil company, have offered to build a politically contentious oil pipeline from Baku in Azerbaijan to Ceyhan in Turkey in exchange for exclusive control over the proposed line, according to Azeri officials.

Sir John Browne, BP's chief executive, is said to have made the offer during a meeting in London this week with President Heydar Aliyev of Azerbaijan.

Mr Aliyev turned down the proposal, saying that all 12 members of the Azerbaijan International Operating Company – the international consortium developing the first big foreign oil project in Azerbaijan's sector of the Caspian Sea – should take part in a main export pipeline.

BP yesterday confirmed that it and Statoil had offered to take the lead in organising the financing and construction of a main export pipeline, but only within the context of the AIOC. It denied that the two companies wanted exclusive control of the proposed pipeline: "The issue of ownership and operatorship are up to the Azeris to decide," said a spokesman.

He said the BP/Statoil offer was intended to ensure that the project moved forward swiftly once the AIOC as a whole decided to go ahead with the line.

Although there may have been some confusion over what was said in this week's meeting, it is clear that Mr Aliyev wants the main oil pipeline to follow the Baku-Ceyhan route through Georgia and Turkey to the Mediterranean Sea, even though many industry executives say it would be the most expensive export route.

Three possible routes for the "main" oil, expected to flow by 2003 from Baku's flagship offshore oil project, are being studied by a commission. The other routes are through Russia or through Georgia to the Black Sea. The commission is due to report in October, but Mr Aliyev has brushed aside suggestions that Baku-Ceyhan might not be their choice. "They will not recommend any better route," he said.

BP yesterday said its proposal was prompted by its desire to see Azerbaijan in a position to export large volumes of crude oil as soon as possible in order to earn much-needed revenues.

The proposed Baku-Ceyhan pipeline is strongly supported by the US, which is keen to see Azeri oil – as well as crude from Kazakhstan and Turkmenistan – flow directly to western markets without passing through Russian or Iranian territory.

But international oil companies have expressed concern about its costs. The latest studies suggest a line carrying 1m barrels a day will cost between \$2.5bn and \$2.9bn, whereas swapping oil with neighbouring Iran – one alternative – might cost a fraction of that.

In addition, AIOC executives say Azerbaijan's two "early" oil pipelines – one through Russia to Novorossisyk on the Black Sea, and the other to the Georgian Black Sea coast – could be substantially expanded if agreement on the main oil line was delayed.

EU TAIWAN TRADE AGREEMENT LIBERALISING MOVES WILL HELP WTO ENTRY TALKS

Taipei cuts car tariffs and taxes on whisky

By John Willman, Consumer Industries Editor

Taiwan yesterday took two important steps to liberalise trade with Europe, cutting car tariffs to help its bid to join the World Trade Organisation and ending discriminatory taxes on European spirits.

It agreed to cut tariffs on cars imported from the European Union from 30 per cent to 17.5 per cent by 2008. The reduction will be phased in after Taiwan enters the world trade body.

Under a trade agreement signed yesterday with the EU, Taiwan also agreed to a package of cuts in industrial tariffs, improved market access in services and the removal of foreign equity restrictions in most service sectors.

Taiwan will also cut the tax on Scottish and Irish whiskies by more than \$7 a litre from the start of next year as part of the package of trade liberalisation measures.

The deal ends Taiwan's discriminatory taxation of European whiskies, currently taxed more than twice as heavily as US, Canadian and Japanese brands.

There will be an interim cut in duty on August 1, with the full cut from January 1. Similar staging will apply to cognac, with the complete elimination of tariffs on EU spirits by 2000.

Whisky exports earned Scotland a record £2.4bn (\$4bn) last year, with Taiwan the ninth biggest export market, worth £65m. Because of the higher duty, most of the Scotch whisky sold in Taiwan is at the upper end of the price range, aged 12 years and over. The industry hopes the tax cut will boost sales of standard blends.

"This cut will allow Scotch to compete on an equal basis," said Hugh Morison, director general of the Scotch Whisky Association. "It creates a huge opportunity for further increases in sales."

The trade agreement also offers the industry hope of greater protection against counterfeiting and look-alikes. Taiwan has promised to introduce tougher protection on the labelling, origin and quality of European spirits and wines.

The ending of discrimination against Scotch in Taiwan follows similar moves in Japan, which last year began to equalise spirits duties following a ruling by the World Trade Organisation. The WTO is expected to report on a complaint against Korea on the issue next week.

Signature of the agreement with the EU removes another obstacle to Taiwan's membership of the WTO, which Taipei wants to complete by the end of the year. A trade accord was signed with the US in February. The EU was the last of the 26 trading powers which requested bilateral talks with Taiwan, which must now negotiate with a multilateral working party and gain approval from all WTO members.

European consortium signs \$12bn contract to build high speed rail link

Taiwan's ministry of transport yesterday signed a final contract with the Euro-Train consortium, led by Siemens of Germany, which builds Europe's Inter City Express train, and the Anglo-French group GEC Alsthom which manufactures France's TGV bullet train, to build a \$12.8bn high speed rail system.

The European companies will partner the Taiwan High Speed Rail Corporation in building the 340km rail system, linking Taipei with the southern city of Kaohsiung.

It is the first BOT (Build-Operate-Transfer) project awarded by Taiwan and is expected to become a model for further BOT projects on the island. The contractor will run the rail link after completion and pay the government 10 per cent of revenues during the period before handing over ownership and operating rights. An initial BOT plan for 30 years of private sector operation was extended to 35 years in the final contracts.

The bullet train system is planned to become operational in 2003. Taiwan will use Germany's ICE locomotive and France's TGV system body for the bullet train. Taiwan High-Speed Rail's proposal, based on the Anglo-Franco-German Euro-Train system, won the contract after a competitive tender in which it beat rival Chung-Hwa High-Speed Rail Consortium, which offered around \$15.6bn to import Japan's Shinkansen bullet train technology.

Taiwan High-Speed's proposal involved no state funding, while Chung Hwa would have obliged the government to put in some capital.

Internet names pose quandary in Geneva

By Frances Williams

Top internet policymakers and industry leaders from the US and Europe meet in Geneva today and tomorrow in a drive to make progress on a new international system for assigning network names and addresses.

The meeting, being held on the sidelines of the Internet Society's annual conference, will try to flesh out proposals by the US Commerce Department in a paper last month.

These call for establishment of a non-profit corporation to manage the system from October 1, when Network Solutions Inc (NSI), a private US company, loses its US government monopoly.

The paper proposed an international board to represent global internet interests including industry and consumers.

But it left the details to the private internet community to work out. Today's meeting is one of a series that will continue in Singapore next month and in the US in September.

The European Union has said it is prepared to go along with the paper, provided Europe is adequately represented on the board and that EU competition and trademark law continues to apply.

Australia and other countries have taken a similar line.

According to draft bylaws published by the Internet Assigned Numbers Authority (Iana), the body managing the current address system on behalf of the US government, no more than half the board of the "New Iana" would be from any one region.

More controversial issues relate to management of the internet address system itself where the internet community is deeply split.

Last year a number of internet companies from the US and elsewhere agreed a new registration system, in co-operation with the International Telecommunication Union and the World Intellectual Property Organisation, two Geneva-based UN agencies.

The system, which is already partially in place, would permit competing registrars to register international internet addresses under the surveillance of a non-profit-making Council of Registrars (Core).

In addition to the three existing so-called generic top level domain names (.com, .net, .org) now allocated by NSI, seven new ones would be added to ease congestion.

Nearly 90 or so prospective registrars have already signed up but launch of the scheme was blocked by competing US proposals. The latest US plan leaves room for the Core system or something like it to operate under the auspices of the New Iana, but there is so far no consensus on how this would work in practice.

US to seek WTO ruling on EU banana plans

By Frances Williams in Geneva

The US and five Latin American banana producers said yesterday they would ask for the European Union's revamped banana import regime to go back to a World Trade Organisation panel for a ruling.

EU ministers agreed last month to change the regime to comply with an earlier WTO judgment that the EU's banana import rules unfairly discriminated against Latin American producers and distributors.

However, the six countries that brought the original complaint say the new system is just as discriminatory as the first and plan to invoke WTO rules letting the panel reconvene to rule on any proposed settlement.

This would be the first time a panel has been asked to judge a disputed settlement. It represents uncharted legal waters for the WTO, though US officials said yesterday that Washington had the right to insist on a panel if the EU refused. A formal request could be made at the next Dispute Settlement Body (DSB) meeting in September.

EU officials told the WTO dispute settlement body yesterday that the new rules would come into force on January 1 1999, within the time limit set by the WTO. Brussels, which maintains that its scheme is fully WTO-consistent, has not yet decided its response to the panel proposal.

The new banana import regime continues to favour bananas from African, Caribbean and Pacific (ACP) producers with duty-free access but enlarges the quotas for Latin American bananas and changes the controversial system for allocating import licences. The EU has been attempting to find how to have a single market for bananas in compliance with WTO obligations and also respect its Lomé agreement with ACP countries.

Charlene Barshefsky, US trade representative, has threatened the EU with retaliation through the WTO if Brussels goes ahead with the scheme as planned.

- The DSB established dispute panels to rule on complaints by Canada and Brazil against subsidies to the other's aircraft industry. The dispute involves rival regional aircraft manufacturers Embraer of Brazil and Bombardier of Canada. The panels will have to report within three months under speeded-up procedures in the WTO's subsidies agreement.
- The DSB also established dispute panels to rule on EU complaints against South Korean restrictions on dairy imports, and against Argentina on footwear import curbs.

However, the US blocked a first request by the EU for a panel to rule on US tax breaks for exports through so-called Foreign Sales Corporations which Brussels puts at \$2bn a year.

Brazil Workers' party scorns 'ignorant' minister

By Geoff Dyer in São Paulo

Brazil's leftwing Workers' party yesterday branded Peter Mandelson, minister without portfolio in the UK government and a close ally of Tony Blair, the prime minister, a vulgar propagandist.

Luis Inacio Lula da Silva, the party's presidential candidate, has written to Mr Blair to complain about Mr Mandelson's behaviour on a visit to Brazil earlier this week when he accused the party of being "outdated".

In a separate statement, the party said Mr Mandelson's comments had revealed "a profound ignorance" about Brazil. "They provide evidence of a colonialist mentality which is ridiculous in the context of the decadence of the old empires," said José Dirceu, the party's president. Mr Mandelson's proposals sought solutions for complex socio-economic problems through "vague marketing formulas".

The furious reaction comes as the party begins campaigning for the Brazilian general elections in October. Mr da Silva, otherwise known as Lula, is a distant second in the polls behind Fernando Henrique Cardoso, the incumbent centre-left president.

Mr Mandelson, widely expected to be promoted to Mr Blair's cabinet in an imminent reshuffle, claimed to see in the PT everything that had been wrong with the UK Labour party of old. In an interview in São Paulo on Wednesday, he said the PT had not "modernised its structures, either in terms of internal democracy or in terms of its outlook".

Blair aides in London yesterday denied that Mr Mandelson had intervened in the Brazilian election or attacked Lula. On his return to Britain yesterday, Mr Mandelson praised Mr Cardoso who, he said, was largely responsible for Brazil's transformation into a mature and economically successful democracy.

He said that the only people criticising him were the "old wing" of the Workers Party. Mr Cardoso is a former Communist and exile from the military dictatorship, who has embraced the market while trying to promote greater social justice. The PT, however, has opposed the liberalisation of the Brazilian economy.

Mr Mandelson was in Brazil to launch a translation of Mr Blair's book New Britain.

MANUFACTURING INDUSTRY ANALYSTS WARN OF HEAVY JOB LOSSES AMONG VEHICLE COMPONENTS COMPANIES

Chancellor cites Rover productivity failings

By Robert Peston in London and Juliet Jowit in Birmingham

Gordon Brown, the chancellor of the exchequer, yesterday attempted to distance the government from responsibility for yesterday's decision by Rover to shed 1,500 jobs by blaming the company's inefficiency.

"There is absolutely no doubt that productivity is an issue here", the chancellor told the Financial Times. "Anybody who has looked at the productivity problems of the British car industry and the comparisons between different sectors of the industry and different companies in the industry knows that productivity is an issue."

Rover, a BMW offshoot, told its workforce of 39,000 that the job losses were needed to offset the impact of the overvalued pound. Mr Brown said he understood "people's worries about the pound." But there was "no doubt that productivity is an issue and unless we face up to the fact that we have a productivity gap with our competitors then we will as a nation be failing to meet the challenges of the future."

Against the D-mark, sterling had risen "only 4 to 5 per cent" since the general election and "if you look at it in relation to the dollar that is virtually unchanged over the last year."

He had no doubts about the long term benefits of transferring control over interest rates to the Bank of England, which is widely seen as responsible for sterling's strength.

"I am going to continue to support the Bank of England in the difficult decisions it has made," he said. "What I think is quite ridiculous is that, either people are saying the Bank of England's terms of reference have got to be changed, or alternatively people are saying the Bank of England should never have been made independent."

In the wake of the Rover announcement, motor industry analysts warned that more than 15,000 jobs in the UK automotive components sector could be lost within three years. They blamed structural problems in the UK industry, dominated by too many small players, aggravated by the strength of sterling pushing up export costs and making imports much cheaper.

Decisions by Rover, Nissan, General Motors and the Leyland Daf commercial vehicle company to source more components outside the UK will take £500m-£600m a year out of the national economy, said the international automotive unit of KPMG, the consultancy firm.

"You're going to see somewhere around $1bn of sales going overseas and not a lot coming back," said Mike Woodward, director of the Birmingham-based KPMG team. "That's somewhere between 5 and 10 per cent of what people produce in the UK components sector."

Domestic gloom clouds export success

Strong pound cannot take all the blame for car company's discomfort, writes **Haig Simonian**

Rover's decision to seek 1,500 redundancies was not entirely surprising to manufacturers battling the strong pound. In April, Nick Reilly, chairman of the Vauxhall offshoot of General Motors, decided to forego his £160,000 basic salary for a year to persuade employees to accept a radical three-year wage deal, including a link to the sterling-D-Mark exchange rate in its final year.

But Rover's decision to eliminate "at least" 1,500 jobs is particularly ironic. One of the company's achievements since its acquisition by BMW of Germany from British Aerospace in 1994 has been to raise exports. In the past four years, a re-energised Rover, boosted by keenly awaited new models, has reappeared in markets such as Brazil and Argentina, long abandoned by former managements.

Based on greater confidence, better models and stronger financial backing from BMW than from any previous parent, that determination to make up for lost ground has borne fruit.

Rover's sales outside the UK climbed to 290,000 units in 1997, from 237,000 in 1995. Exports now account for 57 per cent of output. In some markets, the rise has been spectacular: Rover is now one of the leading importers in Italy; in Germany, sales have virtually doubled, albeit from a very low base.

However, at current exchange rates, Rover's cars have become less competitive, especially when Japanese and Korean models have gained an edge because of Asia's currency turmoil. Rover has been cushioned by long-term currency hedges. However, Walter Hasselkus, its BMW-appointed chairman, admits even the best currency hedges expire, exposing the company to the full impact of the strong pound.

Mr Hasselkus yesterday told representatives of trade unions with workers at Rover: "We have been protected from the effects of the strong pound by forward buying of currency, but this protection cannot last forever. The time has come when we must take action."

But Rover cannot shift all the blame on to the exchange rate. In the UK, which accounts for the biggest slice of sales, its results have been more mixed.

While UK sales have risen in absolute terms – in some years at least – the company has failed to keep pace with a fast-rising market. Rover's UK share has slipped below 10 per cent. It is currently 9.7 per cent.

Rover executives argue the slide reflects a deliberate shift away from low margin business, such as sales to daily rental companies. They say BMW's strategy to position Rover as a premium brand means it is profit, not market share, that counts. But they say that earnings are also under pressure in the home market as the strong pound has allowed brands from outside the UK to undercut it comfortably.

While largely true, that ignores the fact that Rover's products have not helped it confront the opposition. New models, such as Land Rover's Freelander, the Rover 200 and the MGF sports car, have done well. But in other, bigger segments of the market, cars such as the Rover 400 and 600 have failed to make an impact.

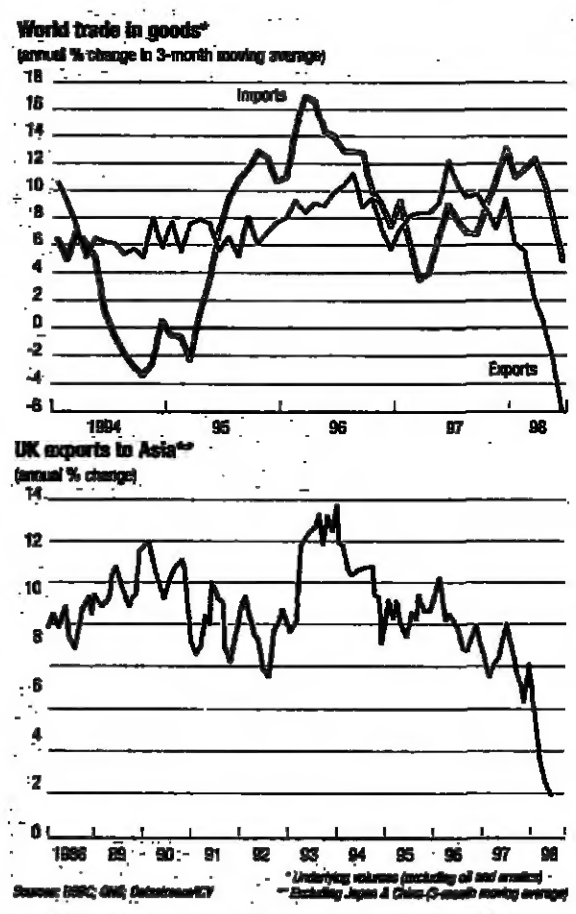
Product-led recovery will accelerate this year, with the launch of the Land Rover Discovery and Rover's big new saloon, probably to be called the 75. These are among the first developed entirely under BMW's ownership and should reflect the depth of engineering talent at Rover's German parent.

However, neither car is a mass market model, meaning their impact on sales, even if very successful, will be limited. In the meantime, Rover has suffered the impact of dropping the 100 (the former Austin Metro). In spite of its age, more than 40,000 of the model were sold last year.

Only the arrival of big selling new models will give Rover's sales a real boost. That will not be happen until late 2000 for the new Mini, and even later for the replacement for the 200 and 400.

Until then, Rover faces a rough ride, made even less comfortable by the strength of sterling. But the currency is by no means the only cause of Rover's current discomfort.

BMW results, Page 17



The UK trade deficit with the rest of the world widened from £1.4bn in April to £1.86bn ($3.06bn) in May, the Office for National Statistics said yesterday, Richard Adams writes. May's figure was better than the £2.1bn shortfall predicted by analysts but was still the largest monthly deficit since July 1990. May's deficit was below expectations owing to a lower than expected trade gap with the European Union. The EU deficit was just £300m, half of April's figure, and the lowest since January.

Concern on blood product after research claims

By David Pilling in London

The Department of Health called an emergency meeting yesterday to discuss claims that a widely used blood product may be killing 600 patients a year in Britain.

The department said it had taken the "unusual step" of forming a joint working party of the Medicines Control Agency and the Committee on Safety of Medicines to study scientific research questioning the safety of human albumin solution.

The research, to be published in today's British Medical Journal, says there is evidence albumin increases the risk of death in patients by 6 per cent and may have caused thousands of deaths since its introduction 50 years ago.

Albumin, which is used worldwide to treat people with injuries and burns, is given intravenously to about 100,000 patients in the UK each year. It is manufactured from donated blood.

Unlike scares over the transmission of HIV or CJD in blood, the suggestion with albumin is that the product itself may be dangerous. Albumin is used to replenish protein levels in patients who have lost blood or who are severely malnourished, usually after a period in intensive care.

"We are taking this very seriously," the department said. "We don't know if [albumin] is causing additional deaths and, if it is, why it is doing so."

It said senior ministers were aware of the review and that action could include tightening the use of the product or banning it altogether.

Phil Alderson, deputy director of the Cochrane Centre which produced the BMJ paper, said a review of more than 1,400 patients in three categories showed that "using albumin seems to cause a higher death rate than not using it".

The BMJ paper concluded: "We found no evidence that albumin reduced mortality and a strong suggestion that it might increase the risk of death in [some categories of] patients."

The review looked at data for patients with severe burns, those in intensive care, and those who had lost blood after accidents or surgery.

Auditing regulator issues warning on 'prelims' change

By Jim Kelly, Accountancy Correspondent

Companies encouraged by regulators to speed up their year-end annual reporting timetables and expand preliminary announcements ("prelims") were yesterday warned that they still needed to get auditors to agree that the figures are reliable.

The Auditing Practices Board, the audit regulator, said it supported a recent announcement by the Accounting Standards Board urging companies to publish data more quickly and at greater length – but that reliability was paramount.

The auditing board's guidance, to be published next week, will be seen as an attempt to stiffen auditors' resolve not to agree to prelims until the the audit is "sufficiently advanced" to make it likely the figures will match the final results.

"It is vital to the efficient operation of the market that the financial information contained in the preliminary announcements is reliable," said Ian Plaistowe, chairman of the auditing board.

The auditors' attitude will be seen as overly defensive by those who believe the priority is for companies to get information quickly to the stock market – as long as the core of the audit has been completed.

But privately auditors are concerned that the ASB is over-enthusiastic about developing prelims into early versions of the full accounts which can be sent quickly to shareholders and analysts – if necessary on the internet.

There has been concern that the ASB had overplayed the advantages of speed to companies but underplayed the necessity for data to be completely reliable and consistent with the full annual report and accounts.

Under the Stock Exchange listing rules auditors have to agree to prelims being made – if they disagree with the contents they can take legal advice to notify the Stock Exchange of their concerns.

The ASB, with the backing of leading companies and the Stock Exchange, wants prelims expanded and results accelerated to within 60 days of a company's year-end – a deadline missed by many large companies.

Rationalisation is final chapter in a colourful banking history

Clay Harris looks back at the fortunes of Henry Ansbacher, the City of London bank now owned by South Africa's RMB

Henry Ansbacher, the century-old City of London merchant bank, is to be reduced to a brand name for private banking and offshore asset management under the slimming regime enforced by its South African owner.

Ansbacher's entire UK corporate finance department has been jettisoned, concluding a colourful history during which the bank counted the publishing tycoon Robert Maxwell as a client and made a cameo appearance in the Guinness affair.

Other Ansbacher activities such as lending and trade finance will be brought into line with the South African focus of First Rand, the merged financial services vehicle of Anglo American and RMB Holdings. Ansbacher had been owned by Anglo's First National Bank of Southern Africa since 1992. But since the First Rand deal in March this year it has answered to new bosses at Rand Merchant Bank.

RMB, the country's largest investment bank, wants all its activities to have a South African dimension, according to Nicholas Banszky, managing director of the RMB International mergers and acquisitions arm.

"Our clients in South Africa are blue chips," Mr Banszky said. "We really didn't see a place for [Ansbacher's] high-risk and low-value activity. It's not our cup of tea." Ansbacher's balance sheet would be marshalled to finance acquisitions by South African companies and its current loan book would, he said, be "refocused".

But RMB saw an important role for Ansbacher in its asset management arm, which manages R100bn ($15.4bn) within South Africa. Ashburton Jersey, a Channel Islands subsidiary, manages £500m in offshore money for South Africans.

"If you're a company, you'll be talking to RMB, if you are a very rich person, you'll be talking to Ansbacher," Mr Banszky said. "Private banking is an area we're very excited about. Seventy per cent of [Ansbacher's] revenues come from offshore trust activities."

Before FNB bought full control in 1992, Ansbacher was controlled by Pargesa, the Swiss investment group, and Groupe Bruxelles Lambert. Together owning 62 per cent, they were the latest in a parade of strategic investors since the late 1960s.

Ansbacher's deals were often tinged with controversy. It acted for Robert Maxwell's BPCC in rancorous takeover bids for John Waddington and Extel. It also advised Milbury, a company controlled by Jim Raper, in its takeover of Westminster Property Group in 1983.

Mr Raper was condemned as "a dominating and unscrupulous man" by a 1988 Department of Trade and Industry report into the deal and subsequent corporate collapse. Ansbacher's role was also criticised.

A 1988 Ansbacher internal report on the bank's corporate finance deals in 1986 found that the Takeover Code had been "widely ignored in respect of false markets and indemnities". Later in 1988, the Takeover Panel censured Ansbacher during another bid.

But the Guinness affair was a watershed. Two of Ansbacher's clients bought shares after receiving an offer of indemnity from Morgan Grenfell, Guinness's financial adviser. The Bank of England later forced Lord Spens to resign as managing director. In 1993, he won a full acquittal on charges arising from the share-support operation and is suing the Bank over its role in forcing him out.

In subsequent years, Ansbacher took a much lower profile. But even at the end, there was a cloud. It emerged last week that the Securities and Futures Authority was looking into the role of Ansbacher's corporate finance head, Jack Pryde, and another director, Toby Hayward, in a 1996 takeover when they worked at another bank. New management at Utilitec, the engineering services group created by the deal in question, had swiftly dropped Ansbacher as its adviser.

By the end, only five companies with full London listings still named Ansbacher as their financial adviser. Last year, Tottenham Hotspur and Manchester United, the football clubs, and Tandem Group, the bicycle maker, all dropped Ansbacher.

One of its remaining corporate clients said it was disappointed by Ansbacher's withdrawal, but two others said its disappearance was "no great loss" – a reaction unlikely to prompt second thoughts at RMB.

NEWS DIGEST

PUNISHMENT BEATINGS

N Ireland parties urged to renounce all violence

Political parties with links to paramilitary groups should be barred from the Northern Ireland assembly until "punishment beatings" in the region cease, the opposition Conservative party said yesterday. Andrew Mackay, the party's chief spokesman on Northern Ireland, said in the House of Commons that people were not safe even though although republican paramilitaries and their pro-British rivals were observing ceasefires.

He said there had been more than 100 punishment beatings blamed on paramilitaries in the past year. Mr Mackay insisted that Sinn Féin, the political wing of the Irish Republican Army, and parties linked to "loyalist" paramilitary groups should be required to renounce all violence before their representatives could sit in the assembly.

"We are all grateful that there is a ceasefire, but in the case of the IRA they described it as a cessation of military activities," Mr McKay said. "Yes, they have stuck to their word in that there are not any military activities, but there is absolutely no doubt that there are civil activities."

MICROSOFT

Manual covers are stolen

Police are investigating the theft of 115,000 Microsoft software manual covers from one of the few UK centres authorised to replicate the company's programs. The manuals were intended for use with Windows 98, the latest version of Microsoft's personal computer operating system. The retail value of the stock which could be made up by combining counterfeit CD-ROM software with the genuine manual covers would be about £6.5m ($10.7m), said David Gregory, Microsoft's anti-piracy manager.

He said the stolen covers could be identified by nine digit numbers printed on the front. The numbers run between 353888000 and 353977999 and 714571000 and 714595999. It is the second time that Microsoft stock has been stolen from its factory in central Scotland. Last November, armed thieves tied up security guards and made off with about £9.6m worth of software and more than 200,000 Microsoft "certificates of authenticity". **Alan Cane, London**

LOCKHEED MARTIN

Delivery to RAF nears

The delayed delivery to Britain of 25 C-130J transport aircraft, the latest version of the Hercules, moved a step closer yesterday with Lockheed Martin's announcement that it had overcome de-icing problems following three weeks of tests. The tests were carried out to meet US Federal Aviation Administration standards. The C-130J is now expected to win FAA certification in the summer and the first delivery for UK testing is likely to be this August, 18 months late.

The aircraft previously had software and stalling problems which have also been overcome. The C-130J, for which the Royal Air Force is the first customer, is now due to go into service with the RAF next year. **Alexander Nicoll, London**

CENDANT ACQUISITION

Concession to sacked chief

The RAC has patched up its disagreement with its sacked chairman, Jeffrey Rose, clearing the way for a members' meeting to approve the sale of its motoring services division to Cendant of the US for £450m ($742.5m). Mr Rose, who was dismissed after canvassing members about a break-up of the 101-year motoring organisation without the approval of its board, has been offered the post of vice-president and a life membership of its two gentlemen's clubs.

The RAC's 12,000 "full members" – members of its clubhouses in and near London – will receive £33,000-£35,000 each as a result of the sale. Mr Rose was not opposed to the sale, and his attempt to dismiss the current board and replace it with one of his choosing was ruled out of order in the High Court in London last month.

But he had been seen as a focus of protest against the board, and the RAC was keen to end the dispute before the Cendant deal was put to a members' meeting on August 12. The RAC expects members to back the sale to Cendant at the August meeting because of the windfall they will enjoy and because of the strength of support for the break-up plan at the June meeting. Then, 99 per cent of members who voted were in favour. **Charles Batchelor, London**

SPORT SPONSORSHIP

Axa backs soccer contest

Axa, the French insurer, has taken over from Littlewoods as sponsor of soccer's FA Cup. The company will pay £25m ($41m) to the Football Association over four years, £11m more than Littlewoods, first sponsor of the competition, paid over the same period. The value of almost all soccer sponsorships has risen sharply in recent years. Bass, the brewer, paid £23m this summer to rename the less prestigious League Cup the Worthington Cup for five years. Worthington is a beer brand.

Axa is expected to spend an additional £15m or so in football to support its sponsorship. The name of the trophy will not change, although it will now be known officially as "the Axa-sponsored FA Cup". **Simon Kuper, London**

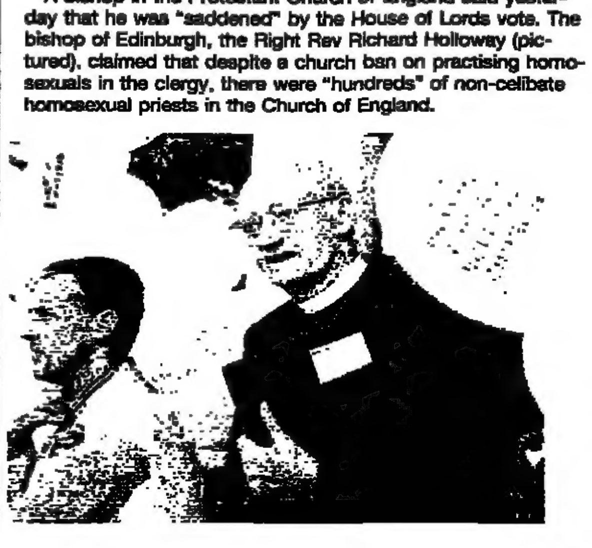
HOMOSEXUAL AGE OF CONSENT

Government may drop measure

The Government indicated last night that it was ready to abandon moves to reduce the homosexual age of consent from 18 to 16. The House of Lords, the unelected upper house of parliament, voted heavily against the change late on Wednesday.

The prime minister's official spokesman said yesterday: "For the thing to go back to the House of Lords I think we would have to be pretty sure it was not going to get overturned. We have to live in the real world."

A bishop in the Protestant Church of England said yesterday that he was "saddened" by the House of Lords vote. The bishop of Edinburgh, the Right Rev Richard Holloway (pictured), claimed that despite a church ban on practising homosexuals in the clergy, there were "hundreds" of non-celibate homosexual priests in the Church of England.



BUSINESS LUNCH MARTIN SORRELL

A little clerk at the heart of a big company

Lucy Kellaway finds that the boss of WPP does not consider himself either successful or powerful

Martin Sorrell and I had been together barely one minute and already he was living up to his reputation for precision. He had just dismissed his driver, announcing that we would walk from the modest WPP offices to Mark's Club in Berkeley Square, London.

It's only two steps away, I said.

"Let's be accurate," he corrected me. "It's a three to four minutebrisk walk."

The tiny boss of the world's second biggest marketing company and I set off at a cracking pace along the Mayfair back streets. Although he was friendly and engaging he did not seem relaxed, somehow. I could feel his meter ticking away.

How many people does he know in this club? He glanced briefly at the selection of businessmen talking in low voices.

"I do not know anyone in the room. It just goes to show how nondescript I am. A boring little clerk." He gave a self-conscious laugh. "I couldn't tell you who the pictures are on the wall, either."

Martin Sorrell takes great pleasure in telling people how boring he is. The drink he ordered – still water, no ice, no lemon – was in keeping with the image. Yet the boring bit is surely phoney – just as phoney as Mark's Club itself, which pretends it has been around forever.

Mr Sorrell explained that the reason the place was so successful was that the owner (who also started Annabel's nightclub) has resisted the desire to grow ever bigger.

I pointed out that Mr Sorrell himself had spectacularly failed to resist the same urge. Since taking over the shell company Wire and Plastic Products 13 years ago, he has bought a whole succession of businesses and become very big indeed.

He laughed, but quick as a flash assured me that WPP owns some small businesses as well as big ones. Our lunch was becoming a competition and I suspected I would not be allowed to win a single point.

He was anxious to order right away. He chose a salad, a grilled piece of fish, some runner beans and more still water. Oh, and a glass of wine to keep me company. Evidently not a hedonist, then.

We started to talk about business schools – he is a Harvard alumnus, and is now actively involved in four schools. "In Britain there is a fairly snooty attitude to business education. I happen to think it is important," he said. He told me about an article that he had written in Management Today in December 1966 (by now I was not surprised that 32 years later he could supply the exact date): "I wrote that the reflex action of someone with a first class degree from Oxford or Cambridge was to go into the civil service but not to go into business."

Did he get a first class degree at Cambridge, I interrupted.

"No, a poor 2.2." He laughed, but in a way that made me wonder whether he really thought it a laughing matter.

A minute or two later he asked if I had got a first. Was I imagining it, or did he look pleased when I said that I, too, had not?

We moved downstairs to the restaurant and he started to tell me that his Harvard Business School class had recently had a reunion.

Was he the most successful person in his year?

"I'm not successful," he replied.

Come off it, I said. "There's so much more I could do," he insisted.

> 'I think everyone is creative. Look, we are the gatekeepers, a co-ordinating device for creative resources in the brand'

"We've got to get the portfolio focused more on growth areas both geographically and functionally." This led to a detailed analysis of the state of the market.

I reminded him that since having what he has jokingly refered to as his male menopause at 40 – which led to him quitting his job as finance director of Saatchi & Saatchi – he has built up a big, thriving company.

But nothing doing. He simply does not see it that way.

Surely your mother is proud of you, I asked, clutching at straws. He owned that she was, and muttered something about her being a classic Jewish mother. "I was her last chance," he said, explaining that he was raised as an only child, his brother having died at birth.

As he wouldn't admit to being successful, I tried to get him to admit to being rich. After all, he has got some £25m ($15.6m) odd of share options which he can cash in next year.

He hummed and hawed a bit, so I asked: is it corrupting to have so much money?

He put his fork down and stared at me, thunderstruck.

"Wow!" he said.

I felt foolish, and started to backpedal. He told me that he has very modest tastes, which is probably true. He also said that money was only valuable to him as an index of how well he was doing.

So if money does not change one's outlook, does power?

It seems Martin Sorrell does not see himself as powerful either. Instead he gave me a lecture on the uneven balance of power in the media industry.

I drained my wine glass and noted that he had hardly touched his. Does he mind when supposedly creative people in the advertising industry describe him as a being a bean counter?

"I think everyone is creative," he said. "Look, we are the gatekeepers, a co-ordinating device for creative resources in the brand." In other words he doesn't really think he is dull at all.

With more conviction he told me how exciting he finds his business. He reeled off the names of his top 10 clients, described how their businesses were changing every minute, how WPP was in the middle of it. And at the middle of that is Mr Sorrell himself, who gets to the office at the crack of dawn, stays till late and then spends the rest of his time e-mailing New York and the far east. "I check everything. I'm probably a bit too nosey. I like to know what's going on."

Because the world is changing so quickly, he says, there is never time to enjoy anything because you are on to the next thing.

I suggested this inability to stay still could be a matter of personality.

"You mean I'm just very insecure?" he said quickly.

No, I said, too polite to agree. It is just that you can't stop taking on more challenges.

"Maybe, maybe," he agreed.

Don't you *ever* relax? I went on.

"No". He looked me straight in the eye. "No, I don't." But then he thought and added: "When I'm playing cricket – maybe."

Is he formidable at that?

"No; stodgy. Boycottian is the best adjective."

I said that I didn't know anything about sport. He looked shocked again.

"But it's a very important marketing medium," he protested.

A *what*?

He repeated the phrase slowly and precisely. "Sport is very important from a commercial point of view," he went on. "It's a good way of communicating."

Mr Sorrell declined pudding and ordered a pot of mint tea.

"Is there anything else you want to know?" he asked.

I enquired what he was up to for the rest of the day. He took a little Economist card out of his pocket and reeled off a series of meetings.

"So what are *you* doing the rest of the day, cheeky?", he quipped back. I said that I was going home to see my children, and suddenly he told me that his three children were all grown up, and that I must enjoy mine while they were young.

On the way out he said hello to his old colleague Tim Bell who was dining at a nearby table. So the little clerk did know someone after all.

"God Bless," he said at the exit, shook my hand, and was gone.

Sorrell: 'I check everything. I'm probably a bit too nosey. I like to know what's going on'

Stewart Goldstein

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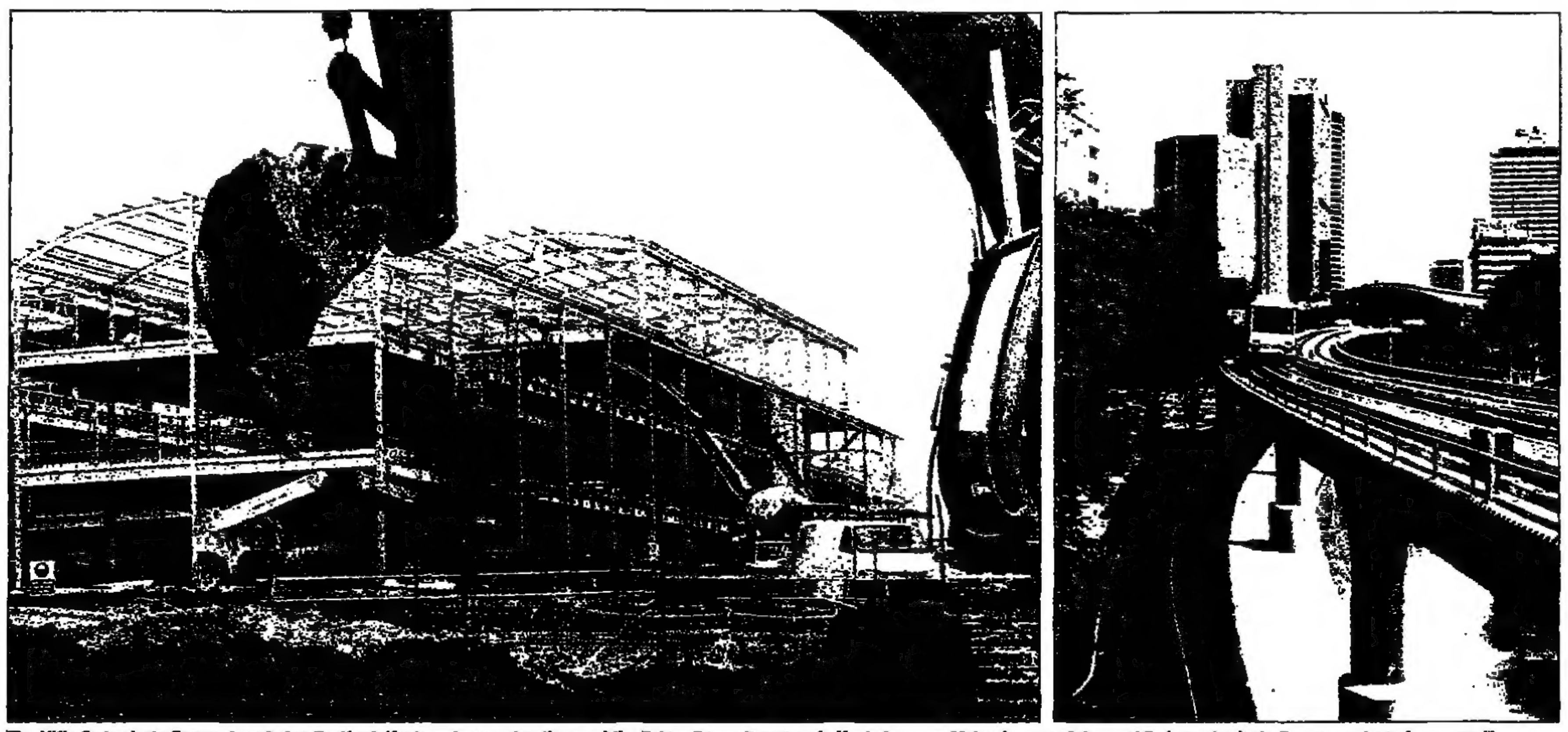
PRIVATE FINANCE INITIATIVE

Although obstacles have been cleared, the flow of deals has not quickened, says Nicholas Timmins

Motor keeps turning but only slowly



The UK's first private finance hospital at Dartford, Kent, under construction, and the light rail transit system in Kuala Lumpur, Malaysia, one of the world's largest private finance projects (see page II)

Six years into the private finance initiative in Britain and a year into the Labour government's revamp of it, the PFI still receives mixed reports among its practitioners.

The British government has successfully swept away many of the legal and technical obstacles which were holding it up. NHS Trusts and local authorities now have the clearer legal authority to sign PFI deals which the banks and finance houses were demanding.

A list of priority projects which have Treasury approval is emerging. The Treasury task force, established last year to drive the process through, has won praise.

But still the flow of deals has not greatly increased. Since 1992, PFI deals worth about £10bn have been signed, £2bn of them since the election last year. This is an improvement, but not a large one, on the deals worth £2bn signed during the previous 18 months when uncertainty about Labour's policy on PFI hampered deals.

Jenny Price, chief executive of the Major Contractors' Group, says: "We've got to the point where there are so many positive things in place and the policy is the right shape. We have a government that is clearly very sympathetic to public-private partnerships and which has shown itself willing to remove the obvious barriers to progress.

"But there is still a real concern about the deal flow. We need to deliver standard terms for contracts which are broadly acceptable.

"Until we do, we will continue with this very painful situation where it takes months and months for deals to be closed. And I don't think we can run on and on for ever in a situation where it takes the top half dozen people on both sides, the public and the private sector, to deliver anything. PFI has got to become much more routine, so that it can be delivered on both sides by ordinary procurers and ordinary big suppliers."

In theory, over the next six months, more of that should be in place. The government's comprehensive spending review has finally emerged, for the first time clearly dividing all departments' budgets into current and capital.

Departments can now, with a greater degree of certainty than before, plan their capital programmes three years ahead. After years of cuts in the government's own capital spending, and admittedly from a very low base, conventional capital expenditure is being doubled to £13bn a year by 2001-02. And new rules are allowing departments over the next few years to keep a much larger share of their asset sales as an incentive to sell what they no longer need. At the same time, the Treasury itself is holding back £2.5bn in capital, for which departments have to bid, for innovative capital or PFI projects which improve key services or public infrastructure.

To some, this looks a confused message. While some departments have embraced PFI with a will – health, defence and social security – key practitioners in the private sector suspect some departments may use the chance of asset sales and the extra spending on conventional capital which Gordon Brown is providing to put off or avoid the need for PFI.

The Treasury intends otherwise. An unfinished part of the comprehensive spending review is establishing the investment strategies of departments. That will require a two-part process. First, getting them to define their service needs and priorities. Then establishing how they will be delivered – by conventional capital, asset sales, PFI or other forms of private/public partnership – within an overall demand that they demonstrate value for money.

This, the Treasury believes, will ensure that the PFI motor keeps turning, with last week's comprehensive spending review projecting that an additional £7.7bn of investment will flow from PFI over the next two years.

On deal flow, Adrian Montague, the task force's chief executive, says: "I don't think an increase in the rate of PFI commitments is a good thing in itself. The important thing is to get good deals which provide value for money. We are trying to get away from the scores on the doors approach."

But, he points out, "the life cycle of a PFI project is inevitably a long one. Prisons now do their PFIs in about 12 months from advertisement to financial close, and that's about as quick as I think we can ever do it.

"It is a lot longer than conventional procurement but that is because you are not only looking at design and construction but you are weighing up the finance as well. By definition, it is a more complex form of procurement."

But equally, the long gestation period means that with the task force only put in place last autumn, "the deals that we have been signing off recently are all pre-task force deals. So to that extent, what we have been trying to do is troubleshoot deals in process, rather than trying to set out deals from the outset in a way which will expedite procurement.

"But we are now doing that. We have the London Underground, we have quite a few local authority projects, we have the second tranche of hospitals and we have the schools programme. So, I hope that progressively now deals are going to be coming out much better organised and much better structured," says Mr Montague.

An important part of that will be the emergence this autumn of the planned templates for PFI projects. The Treasury will be consulting with the public sector over the summer prior to issuing a consultation document which will be effectively negotiated with the private sector at a conference that the task force plans for late September.

The aim is to set a common framework for PFI projects from which models for particular sectors will be developed. What the task force hopes to do "is identify precisely where the right balance of risk and reward lie across PFI when talking, for example, about termination of contracts or change of law. Then there will be the need to develop from them models for particular sectors," Mr Montague says.

The aim is to emulate for schools and hospitals the relative standardisation that has already been achieved for prisons. "That will be much more challenging because there is a multiplicity of procurers, but most of the need for customisation is going to be outside the basic risk allocation. It will be outside the core contract document that the need for customisation will arise," he says.

Workable, bankable templates will ease the process, even though other issues have still to be resolved, not least the Treasury's dispute with the Accounting Standards Board on how PFI contracts should be handled in the government's accounts.

The government is also set to face continued pressure from David Davis, the chairman of the Commons Public Accounts Committee, to spell out the forward commitments of PFI in the national accounts. While saying he is "strongly in favour of PFI", Mr Davies argues that its growth means that "a larger and larger proportion of future tax revenues will be committed". That, in practice, is little different from the need to pay back debt incurred by government borrowing. "This must be transparent," he says, with some sort of capital commitments line written into government's finances. "Once it is, there is no problem, because it is clear what the liabilities are."

But, as the PFI waits for the next moves forward, it is a measure of the task force's success that important figures in the private sector are already asking what will happen when its time, in theory, expires next year – two years after the Bates review called for its creation but recommended that it have a time limited remit. The private sector, and more than likely the Treasury, is unconvinced that departments will be able to handle PFI entirely on their own from next August. Pressure on ministers to ensure continuity of its work is likely to be a feature this autumn.

II PRIVATE FINANCE INITIATIVE

THE WORLD • by Nicholas Timmins

UK's experiment attracts worldwide interest

More than two dozen countries have visited the Treasury's PFI task force, to learn from the British experience

Australia may claim to have invented what the UK now calls the private finance initiative. In the United States, private prisons have been around for years and tax-favoured municipal bonds have long provided private capital for local infrastructure, including schools.

But there is no doubt that Britain's six-year-long experiment with the private finance initiative has attracted *worldwide interest. More than two* dozen countries have been to visit the Treasury's PFI task force, to learn from the British experience of using private finance to provide public infrastructure and services.

The Netherlands is considering setting up a task force modelled on the mix of private sector and public sector skills that has been set up by the UK Treasury to help drive through the rather different version of PFI that the Dutch are adopting.

South Africa is building private prisons using contract models closely based on those used by the Prison Service in the UK. And Portugal has a programme for eight design, build, finance and operate roads using the "shadow tolls" adopted for the first round of PFI roads in the UK.

Japan is edging towards PFI-style projects while the countries of eastern Europe and the former Soviet Union are joining Brazil, Iceland, South Korea and even China in either exploring or adopting the idea.

Malaysia's Kuala Lumpar light rail system claims to be the biggest private finance project in the world, while privately financed tolled motorways have been built in Hungary and are being explored in Romania, with the US introducing its first new toll road for 100 years from Dulles airport near Washington DC.

The drivers are broadly the same everywhere. They are a desire to provide more capital-intensive infrastructure without raising taxes, a wish to get such spending off the government's balance sheet, and, certainly in some countries, a belief that the incentives built into the PFI approach deliver better value for money. By giving the private sector the financial risk of maintaining and operating projects, governments hope to produce more cost-effective lifetime design and maintenance than the public sector on its own is likely to achieve.

In practice, there are as many differences as similarities in different countries' approaches, and the reach of private finance into different types of service and infrastructure varies widely. There have also been some hiccups. A recent court decision in Hungary – still under appeal – where a motorist successfully challenged the toll levels has sent shivers through the financiers of such schemes.

Learning is also a two-way process. The Department of Transportation in the United States, which faces a huge maintenance backlog on roads, bridges and other transport infrastructure, recently achieved legislation which will allow it to guarantee loans that have only a small risk of being called on to part finance infrastructure projects. This a way of using public sector guarantees as a lever to bring in private finance and bears a marked similarity to the approach the British government has taken to finance the Channel tunnel rail link.

That approach is not yet being adopted elsewhere in the UK, but as the government talks about private-public partnerships, as well as pure PFI, it would not be surprising to see it being used for other projects – generating fresh controversy over whether or not such guarantees should count towards the public sector borrowing requirement.

SOUTH AFRICA • by Victor Mallet

Partnership the new watchword

The concept is seen as a way to improve efficiency and make resources go further

When entrepreneurs start forming companies with names such as Safety, Security and Justice Property Holdings, you know that PFI cannot be far away.

South Africa's SSJ, in *which the UK's Common*wealth Development Corporation has a stake, is a new Cape Town-based company which plans to buy, redevelop and refurbish facilities such as magistrates' courts, police stations and rescue centres and lease them back to the government. It has already bought a police station and magistrates' court complex at Thlabane near Rustenburg.

Straightforward privatisation – the outright sale of state assets to private buyers – has had a slow start in South Africa since the country's first democratic election in 1994, although minority stakes in the telecommunications monopoly and the airports authority have been sold to foreign groups.

But some ministries – particularly transport under Mac Maharaj and public works under Jeff Radebe – have embraced the idea of PFI. Better known in South Africa as PPP (for public-pri*vate partnership), the con*cept is seen as a way of improving efficiency and making resources go further at a time when the government is seeking to reduce the budget deficit year by year.

In an attempt to spread the gospel throughout local government, South Africa's National Business Initiative has developed a PPP training programme to help councillors and municipal officials evaluate PPP options for services such as water supply.

So far, however, the focus has been on roads and prisons. Trans African Concessions (Trac) – a *consortium* of Bouygues, Basil Read and Stocks & Stocks – has begun work on a 30-year concession from the South African and Mozambican governments to improve and manage a R1.8bn toll road between Witbank in South Africa and Maputo in Mozambique.

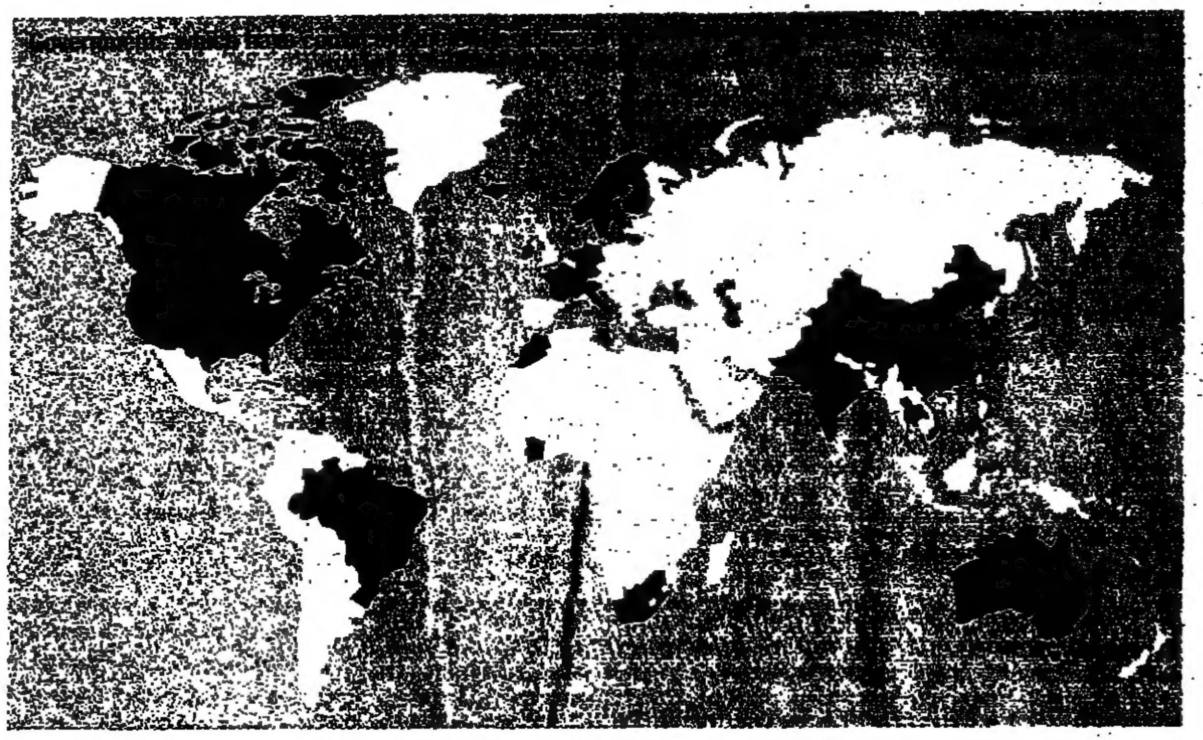
The contract for the 440km road is South Africa's first significant project finance deal. Nicholas Bliss, of Freshfields lawyers in the UK, said during a recent visit to Johannesburg that the legal structure is similar to recent road deals in the UK, except that the UK government usually pays "shadow tolls" to contractors based on traffic flow, whereas Trac will have to collect the toll money itself from truck and car-drivers using the road. "The only difference is the payment mechanism," says Mr Bliss.

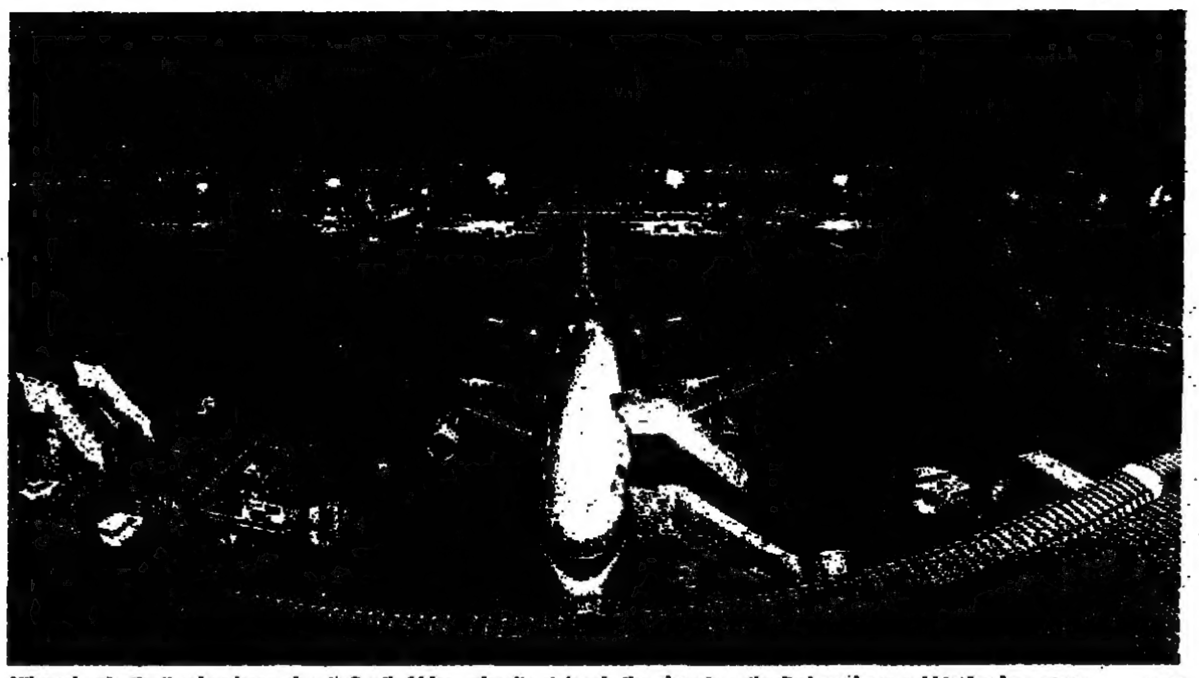
A typical feature of contracts under South Africa's embryonic PFI system is a *government requirement* that "empowerment" partners are given a share of the business. The idea is to promote black entrepreneurs who were unable to compete in the days of apartheid.

This applies to the bidding *for the construction and* management of four privately financed South African prison projects worth more than $2bn over the next 25 years. The department of public works has named five shortlisted bid*ders for the projects, and it* has faced criticism from those left off the list.

South Africa has a plentiful supply of criminals but is short of cash and prison accommodation, and it has looked to the UK and the US *for advice on how to encour*age the private sector to take some of the strain.

Tim Wilson, who heads the UK's prison service contracts group, is one of the members of the evaluation panel for the South African *prisons programme, and* South African officials have visited the UK to inspect the projects there. "There's been quite a lot of cross-support," says Mr Bliss.





Although privatisation has been slow in South Africa, minority stakes in the airports authority have been sold to foreign groups Corbis

UK TRANSPORT • by Charles Batchelor

Complex solutions

The government is trying to strike a balance between private and public finance

Labour came to power with a promise to standardise and simplify its predecessor's private finance initiative. But a glance at the transport sector shows that off-the-shelf solutions continue to evade the politicians and the planners.

The Channel tunnel rail link, a legacy of the previous government, has stretched the ingenuity of ministers, civil servants and merchant bankers to find a financial structure that will work.

The partial privatisation of London Underground reflects the present government's priorities. But it appears no less complex as departmental officials and the Tube's managers struggle to reconcile Labour's manifesto pledge not to stage a wholesale privatisation and the need to raise cash.

The decision to sell 51 per cent of National Air Traffic Services, the national air traffic control system, has the virtue of simplicity. But it does mark the abandonment of a government commitment to keep the system in public hands.

The government's failure to develop a common model for what it calls public/private partnerships (PPPs) can be partly explained by the unique nature of the transport problems which have to be solved. It is also true that *many of the "easy" projects* have already been completed.

The PPP programme has also had to take a back seat while a far bigger enterprise to improve the finances of the transport system has got under way. The transport white paper published this week put forward proposals for city centre congestion charging and a tax on non-residential parking spaces – at offices and factories – to raise extra money for transport projects.

This has not prevented the government from promoting PPPs at every opportunity. Speaking at the official inauguration of Heathrow Express, the fast rail link between central London and Heathrow airport, Tony Blair, the *prime minister*, described the project as "a model" of PPP.

In reality, it was anything but. British Rail had been forced to withdraw from the project when the railways were being privatised, leaving BAA, the airport operator, to pick up the bill. BAA bought out BR's 30 per cent holding in 1996.

The most significant breakthrough in the field of PPPs since Labour came to power was the decision by the Treasury to provide a guarantee for £3.8bn of bonds to be issued to help finance the £5.8bn Channel tunnel rail link.

The rail link had teetered on the brink of collapse when London & Continental Railways, the private sector consortium which was *awarded the contract to* build the 68-mile line, was forced to ask for an additional £1.2bn in public subsidy. Disappointing passenger numbers on the Eurostar trains had made a nonsense of the original financial projections.

John Prescott, deputy prime minister, was able to argue that the risk of default was so small – less than 20 per cent, according to official estimates – that the guarantee did not need to be counted towards the public sector borrowing requirement.

Not only did this guarantee represent a break with tradition, the project was also supported by a government commitment to make up Eurostar revenues in the unlikely event that the revised and very modest traffic projections were not met. In return the government will take a stake in Eurostar and can claim 35 per cent of any LCR profits after 2020.

Despite the prospect of the government sharing in the profits of the venture, some critics feel the guarantees which are being provided mean the taxpayer remains exposed to an unacceptable degree of risk.

Under the terms of the rescue package agreed last month, LCR will finance the project which will be built in two stages. Railtrack will supervise construction and is committed to buying the first section, from the Channel tunnel to near Ebbsfleet in Kent.

The contract also requires LCR to build the second more expensive stage through tunnels into St Pancras but Railtrack has said its willingness to buy this part will depend on the severity of the rail regulator's review of the company's track access charges.

London Underground is equally unusual as a partnership between the public and private sectors. Mr Prescott has been criticised for creating an uneasy interface between the publicly-owned train operating company and the privatised concession which will take over the management of the infrastructure and the rolling stock.

> The Channel tunnel rail link, a legacy of the previous government, has stretched the ingenuity of ministers

A state-owned London Underground will sign deals with between one and three infrastructure companies – the precise number has yet to be decided – to meet predetermined performance tar*gets to the maintenance of* track, tunnels and stations. The infrastructure companies, which are expected to be awarded 20-30 year concessions, will be paid out of fare revenues.

Mr Prescott has set himself a target of raising £7bn through this arrangement though the involvement of the private sector could mean costs are squeezed and the amount required is smaller.

Potential bidders for concessions, including civil engineering, construction and rolling stock companies, are concerned whether the project can meet its tight April 2000 deadline. They also point to the risk that an economic downturn could cut London Underground's revenues, leaving a funding shortfall.

In opposition, Labour criticised the previous government's private finance initiative for handing over too much responsibility to the private sector. In government, Labour is using government shareholdings and partial privatisations to retain a stake in large infrastructure projects.

If the balance is right, this approach may work. But critics fear it may cause more problems than it solves by blurring the borders between public and private finance and complicating decision-making.

THE NETHERLANDS • by Gordon Cramb

State is willing to underpin projects

The government's controlling role in programmes is not driven by ideology

Pitt Treuman, chairman of the Dutch government's new steering group for private infrastructure, says programmes developed by authorities in The Hague differ from those seen in Britain in one central respect. The state is willing to underpin them as a shareholder for as long as necessary.

By contrast, the UK has preferred to hand out subsidies, and assets such as property, to stimulate the private sector to take the risk on a project. Mr Treuman, who sees this as having changed only a little under Labour, watched a string of such giveaways in his former post as a director of the European Investment Bank, the institution charged by Brussels with facilitating large-scale public works.

"I suggested once or twice that instead of giving away, it should take a share," he says of the British approach. "The idea seemed almost blasphemous."

He adds: "In the UK you have a very deep separation between the public and private sector – with little exaggeration you can say it is seen as almost immoral if they speak to each other. The Netherlands, in the framework of the so-called polder model, is much more co-operative and consultative, and this is also visible in the public-private partnerships which are evolving."

That consensus-based model of economic management draws its name from the tracts of raised land, built in earlier centuries to shield crops and homes from the sea. The polders were largely financed by local enterprise, allowing the country to stake a claim to one of the earliest known PFI schemes. In addressing the needs of modern-day infrastructure and job creation, though, forms of co-operation began to be developed from the 1960s.

Amsterdam's Schiphol airport bred a batch of businesses around it through the establishment of an area development corporation. DSM, one of Europe's biggest chemicals companies, started life as a replacement industry for a south-eastern area blighted by mine closures, attracting its own cluster of suppliers and related industries. At a local or regional level, banks and construction companies are involved in the development of schemes such as business parks in conjunction with the lower tiers of government.

But large-scale works initiated by the central authorities today are likely to be wholly state-owned, as Schiphol still is. The private participation in such projects occurs either on the periphery, or comes later, through a phased sell-off of shares as happened with DSM. This is hardly classic PFI.

The government's controlling role is not driven by ideology: on the contrary, the administration of Wim Kok has if anything retreated from its earlier expectations. "The tendency was there, like in the UK, to say the private sector was always better, that it was more efficient," says Mr Treuman. "This has cooled down. They now do their homework on a case-by-case basis and identify the value added."

The problem is more that infrastructural projects are confronted by elaborate environmental planning regulations and blocking powers held by local authorities, as well as by an obligation to consult all interest groups. The VNO-NCW, the Dutch employers' federation, is fond of pointing out that in at least one case this brought a 24-year delay before a road was built. No private provider of capital has an horizon that long.

A high-speed rail link to run south from Amsterdam by 2005 will cut journey times to Brussels and beyond – in the same way as Britain's Channel tunnel rail link, with which it is intended to connect. The route, outlined in a pre-tender document circulated last month among potential contractors, is an expensive and tortuous compromise reached years behind schedule.

The Dutch government is hoping for a private contribution of some Fl 1.8bn ($880m) to a total bill of perhaps Fl 9bn. One of the compromises means, ironically, that the service will not call at The Hague.

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INFORMATION TECHNOLOGY • by Paul Taylor

Contracts minimise the risks

New requirements mean only large companies have been able to win deals

Interactive touch screen terminals at Brixton Hill job centre

Complex information technology projects – particularly those in the public sector – are notorious for being late and running over budget and therefore inviting controversy.

According to recent research prepared by the Standish Group, 74 per cent of IT applications projects run over budget and over schedule and nearly a third of them fail.

Many industry experts blame these problems on the way in which systems are specified and, if external suppliers are involved, the way development contracts are drawn up.

Too often, it seems, project specifications change, delays and cost overruns creep in and project implementation degenerates into an unseemly wrangle between the supplier and customer.

In an effort to address some of these issues some public sector IT managers had begun to experiment with new approaches, including specifying the outputs and service levels required, even before the last government launched the Private Finance Initiative.

However, PFI goes a step further by combining the concept of procuring a service rather than a system, with the additional benefit of shifting the bulk of the risk to the service provider.

Independent consultants argue that under PFI contracts the public sector should not retain either the risks or the benefits of ownership of any assets that are developed. Instead, the service provider should install and continue to own all the equipment, replacing it when appropriate.

In the fast changing and often complex world of IT they argue this is particularly important. Inevitably however, these requirements – particularly the assumption of risk – have meant that in the main, only large and well funded companies have been in a position to bid for and win PFI deals in the IT field.

But even then IT projects awarded under the PFI, including the very first – the National Insurance Recording System (Nirs 2) project awarded to Andersen Consulting – have run into controversy.

Andersen Consulting has already paid the Contributions Agency £3.1m in compensation related to delays in the Nirs 2 project which is designed to help the agency collect £45bn a year in national insurance contributions.

Once operational, any serious failure of the system could land Andersen with further claims. Advocates of PFI say the payment of compensation proves that the PFI concept is working, but MPs have already expressed concern about the £100m ceiling on compensation that can be claimed from Andersen should the system fail and need to be replaced.

However, such concerns have not dented the enthusiasm of suppliers such as EDS, the US-based computer services group, for PFI contracts.

EDS has won many of the biggest public and private sector outsourcing contracts, outpacing rivals such as International Business Machines, ICL and Sema. It has gained a succession of six PFI contracts in the IT sector.

In the most recent of these wins EDS was awarded a 10-year contract, believed to be worth more than £250m by the Employment Service, "to become its strategic partner". When the contract was announced in May, the Employment Service said it had opted for a 10-year contract "because it offered the best value for money and the greatest security for transferring staff".

As part of the deal EDS will be establishing a "center of excellence" in Sheffield and intends to move other work to the center. "We intend to expand the workforce," said Charles Cox, EDS's divisional manager. Initially, some 270 of the Service's existing IT staff will transfer to EDS.

Under the terms of the contract which comes into effect on August 1, EDS will take over responsibility for running the service's existing personal computer-based IT systems in 1,000 offices nationwide, and will work closely alongside the service to develop and deliver its future IT systems.

Mr Cox emphasises that the contract is significant for several reasons. In particular, he says, it represents a partnership in a meaningful form and "not just in terms of fluffy things".

In addition, he says the contract was designed from the outset to be flexible and to anticipate policy changes including the implementation of the government's New Deal. "We will be policy enablers," says Mr Cox. Significantly, he says, payments to EDS are tied to the delivery of real business benefits.

The structure of the contract in part reflects the maturing of the PFI process and the fact that negotiations included a senior Employment Service executive who had previous experience of PFI in a different department.

Indeed, the competition to identify a PFI partner for the Service began in August last year and initially attracted the interest of 58 organisations.

Five of these were invited to submit bids and a short-list was drawn up. After extensive negotiations all three were invited to submit Best and Final Offers which were evaluated leading to the contract award to EDS.

The five other EDS contracts under the PFI are:

■ The AFPAA (Armed Forces Pensions Administration Agency) deal with the Ministry of Defence, worth approximately £350m over 10 years, was signed in November and covers the provision of pay, personnel and administration services to the ministry.

This is a business process management contract, where EDS is not paid to manage data centres, but to deliver outputs, for example, to pay members of all three armed forces, maintain personnel records, issue military identity cards and issue campaign medals.

How this is achieved is up to EDS, so the company can put in new systems and new processes. The MoD has estimated that it will save £100m over the life of the contract by involving the private sector.

■ Three months earlier EDS was awarded a 10-year £25m Tafmis (training administration and financial management information service) contract by the Army Training Recruiting Agency.

Under that contract EDS will supply a training administration system to schedule some million course days per year, and a management information system for controlling and running the operations. The agency is in the process of cutting its current £450m costs down to £300m and Tafmis is designed to help achieve this.

■ Under the Loccs (Local County Court System) contract for the Lord Chancellor's Department which was signed in September 1996 and is worth £25m over 7 years, EDS is supplying computer and related services to all county courts and crown court centres in England and Wales.

The contract focuses on developing a case management system to replace paper-based record cards. So far 4,000 staff have been put on line and trained in the new system. Loccs is designed to make civil courts less expensive, quicker, and easier to operate.

■ The National Air Traffic Services Ltd (Nats) Oceanics PFI contract is worth £53m over 10 years and was signed in June 1997. It involved implementing a new air traffic control system at the Oceanic control centre in Prestwick, Scotland.

The centre is responsible for the control of aircraft flying transatlantic routes from Europe to America. The new system uses satellite-based digital links to replace the current procedure, under which transatlantic air routes between Europe and America are managed by voice communication with aircraft. It will provide a range of advanced functions, allowing Nats to handle the 4 per cent annual growth in traffic expected well into the next century.

Under the terms of this PFI agreement, Nats is not required to make any capital investment. EDS will make no charges for developing the system, but will earn fees from Nats according to the volume of air traffic managed by the Oceanic control centre.

■ London Underground Engineering Directorate signed a £10m five-year contract with EDS in September 1994 to provide IT services.

BONDS • by Edward Luce

Pie is set to expand quite quickly

A creative rivalry between the loan and bond markets is keeping down costs

Officials on the bond desks of investment banks in London reckon they have an edge over their counterparts in other countries. The development of a market in the UK for PFI bonds over the past two years has been gradual. Just eight bonds have been issued. But this is probably as many as have been issued by the rest of the world put together.

"This is a bit like privatisation in the 1980s," said Robert Rees, a senior official at Barclays Capital in London. "The UK is pioneering a trend which will spread to other countries and our expertise will be in demand."

The same could be said for private bank financing of PFI projects with dozens of deals already signed and sealed. Stephen Paine, a director in project finance at Warburg Dillon Read, the investment bank, says that there is a creative rivalry between the loan and bond markets which is pushing costs down to more competitive levels. "Banks are responding to the bond markets by pushing out maturities and reducing margins on loans," said Mr Paine.

In spite of this, most bankers reckon the proportion of PFI projects which are financed by bonds will increase over the next 18 months. Broadly speaking, bonds are considered an increasingly attractive way of financing the growing list of hospitals, schools, roads, prisons and public buildings which are expected to raise money through PFI.

First, the borrower can usually secure longer-term funding through the bond market with maturities of up to 30 years. The recent £91m offering from Greenwich Hospital in south-east London was a case in point. In spite of growing bank flexibility on maturities, it would have been next to impossible for Greenwich to secure 30-year funding through the loan market.

Second, the bond markets provide for fixed rate funding which enables the borrower to compute future funding costs down to the very last detail. This can often be vital for a tightly managed public sector operation. Again, the Greenwich Hospital deal, which was priced against inflation indexed gilts, is seen as a benchmark for future projects.

Third, although government guarantees are hard to come by, high-risk PFI projects can purchase guarantees though a US bond insurance company. These enhanced – or "wrapped" – bond issues come with a AAA credit rating from the bond insurer in exchange for a fee from the borrower.

"It is a question of comparing the cost of the fee paid to the monoline insurer (plus the spread) against the cost of the higher spread on the unwrapped bond and seeing which is cheaper," said Mr Paine. Unlike Greenwich Hospital, the two previous hospital bonds – Carlisle and Law hospitals – came with a purchased guarantee.

Fourth, going through the bond markets provides the borrower with a greater degree of flexibility. "You don't sit around with bond investors thrashing out covenants and other conditions," said one syndicate official. "With banks you have to go through quite lengthy negotiations."

Nevertheless, the number of loan-funded PFI projects still heavily outweighs those financed through bond issues. In part, this is because bankers have a more sophisticated understanding of the risks involved in long-term projects than the average bond investor. Second, the borrowers themselves have yet to be fully educated about the merits of the bond market although bankers say it will not be long before the first prison and the first school bond are out in the market.

More importantly, the nature of many PFI projects makes them inappropriate candidates for the bond markets. This is particularly true where the risk profile of a project is likely to alter during its life, for example on a complex building project where construction guarantees are required, or on a project which faces a high likelihood of delays. "Bond investors want to buy into a constant risk," said one banker. "Banks are much better equipped to cope with a deterioration in the operational risk of a project by altering its terms."

In addition, banks are becoming much more competitive in response to the growing popularity of bonds. On a number of recent hospital projects – including Dartford and Gravesham, South Bucks, Hairmyres and North Durham – banks have provided finance of 30-year maturity or longer, according to Price Waterhouse. In addition, the average margin on bank loans has been narrowing steadily for PFI loans. In both instances, this marks a departure from standard bank practice. "PFI finance is essentially project finance which is increasingly where the value can be found in the loan market as a whole," said one banker.

Officials on both the bond and loan desks are agreed, however, that the pie as a whole is set to expand quite quickly regardless of their relative shares. Another 10 hospital projects, for example, are looking for financing while seven prisons are in the market for private funding. Looking further ahead, continental Europe is expected to provide a growing share of the business. Already, public sector projects in Finland, Sweden and Portugal have turned to long-term private finance.

DEFENCE • by Alexander Nicoll

Flying start on the cards

Companies have been asked to bid for the provision of satellite communications

British satellites transmitting the most sensitive military communications could be owned by private companies if one option being pursued by the Ministry of Defence comes to fruition.

The possibility of a PFI solution for the MoD's requirement for Skynet 5 satellites indicates increasing openness to innovative private financing techniques in British defence procurement.

Two teams are bidding in the £750m PFI tender: British Aerospace and Lockheed Martin of the US on the one hand, and Matra Marconi Space, a venture between Lagardere of France and GEC of the UK, on the other. The tender asks companies to bid not for the delivery of satellites but for "provision of military satellite communications service".

The MoD is however holding parallel competitions along more traditional lines and may end up not going along the PFI route.

Even if it does not, there are plenty of other areas in which the MoD is turning to the private sector. Only for equipment and skills which are at the very front line of combat is a PFI solution ruled out and even there the ministry is looking at private sector involvement through reservists working for companies contracted to maintain equipment.

According to MoD figures, 18 contracts with a combined capital value of nearly £800m and total contract value of more than £2bn have been signed since 1995, putting the MoD second after the Department of Environment and Transport which can include big projects such as the Channel Tunnel rail link and Skye bridge in its list.

The contracts include the MoD's internal telephone system, helicopter pilot training, provision of support vehicles, management of the armed forces' pay and pensions, and management of the Army's basic training system.

Signatures of new contracts are not occurring at a fast pace. Though the ministry as a whole is adjusting gradually to the changes in approach and culture which PFI involves, each new contract means a different set of problems to be worked through, as they are in widely differing areas of the MoD establishment.

The wide variety of activities means the concept for each new deal must be explained anew to banks which might finance it, officials say.

"It is hard to see standardisation of contracts but we are looking at areas where we can get some degree of it," one official said. "You read about corporate deals being agreed on the back of an envelope over dinner, but we are just not in that business."

The attitude within the MoD to PFI has changed "immeasurably" in the past two years, the official said. "There was a lot misunderstanding and concern." But in a department of its size, "you don't have to make PFI work for everything".

Fred Bullock of EDS, which has two substantial PFI contracts with the MoD, said projects still needed individual champions within the ministry to take personal responsibility for pushing them through to conclusion.

This year the MoD has broken new ground in two areas. It signed a contract for redevelopment of 279 married quarters at RAF Lossiemouth, the MoD's first venture into PFI housing.

In June, it signed its first significant construction deal. Under the £200m contract, a joint venture between John Laing and Serco, the services company, will design, build, finance and operate the Joint Service Command and Staff College in Watchfield, Oxfordshire.

George Robertson, the defence secretary, said the PFI approach to the college would save the MoD $55m over 28 years compared with the option of public funding.

Jim Armstrong, Laing's finance director, said the contract had taken two years to negotiate but the company saw PFI as an attractive way of using its resources. "We have cash in the balance sheet and we want to invest money in areas where we have group skills," he said. "We are not a construction company which is a reluctant investor."

The principal risks to the company were that construction would not be accomplished to schedule or to budget, and requirements for refurbishment during the college's life. There was also some risk on usage of both the college's facilities and the accompanying living quarters.

An unusual aspect of the contract is that some of the academic teaching has been contracted out to department of war studies at King's College, London University, which will operate as a sub-contractor to Serco.

The MoD is also close to awarding a contract for training of pilots on the Apache 64D tank-busting attack helicopters which the Army is buying.

Among nearly 50 other PFI projects in various stages of procurement are: refurbishment of the MoD's own main building in Whitehall; airfield support vehicles for RAF and naval airfields; roll-on roll-off ferries for the Joint Rapid Deployment Force; water and sewerage facilities at all MoD establishments; and a power station for the Porton Down chemical and biological weapons laboratory.

Colchester, Essex, is likely to see big changes as a result of a PFI contract to reconstruct the Army's garrison there and sell off prime land near the town's centre which would be released by the redevelopment.

About 50 more projects are at earlier stages of consideration, many of them in the areas of training, transport and housing.

PRISONS • by Simon Buckby

Private jails need time to settle down

The lessons of Parc and other privately financed prisons need to be applied quickly

Securicor, managers of Parc prison in south Wales, have already paid one fine of £50,000 to the Prison Service and are facing another for repeated failure to meet the standards set out in its operating contract.

Securicor has also been hit by a stampede of poor publicity over alleged lack of training for staff and the high suicide rate among inmates. As Parc was the first prison to open last November which was designed, built, financed and operated by the private sector, this implies all is not well with private jails.

Yet, one of the first to defend Securicor was Richard Tilt, director-general of the Prison Service, who pointed out that all new prisons, whether private or public, take time to settle into a comfortable management groove.

The lessons of Parc and the other privately financed jails need to be applied quickly, because PFI is spreading through the prison sector quickly.

Although Jack Straw, the home secretary, has said the Prison Service can bid to take over the management of three publicly-built but privately-run prisons when their contracts expire soon, he is expected to stick with the same operators at Doncaster, Wolds (Humberside) and Buckley Hall (Manchester) just as he did at Blakenhurst (West Midlands).

Commissioning new private buildings, which started out for Mr Straw as "an urgent operational requirement to overcome projected shortfalls in accommodation and to avoid dangerous levels of overcrowding", has turned into government policy.

Sensing the change of mood, the Prison Service is hoping to win planning applications for sites in Peterborough, Maghull (Merseyside), Winnick (Manchester) and Ashford (Middlesex) to open each to competitive tender from private construction/management consortia. Mr Tilt believes that private money is the only way new prisons will be built and is happy that the competition is driving up operating standards in the public sector.

These four would add to Onley (Rugby) and Marchington (East Staffordshire) where short lists have been drawn up, and contracts should be awarded later this year. Mr Straw has already granted contracts to UK Detention Services for Agecroft in Salford and to Premier Prison Services for Pucklechurch near Bristol. Both are due to open in the latter half of next year.

On top of this, there are the three first-wave privately-built and privately-managed prisons which have opened in the past nine months: Lowdham Grange in Nottinghamshire, Altcourse in Liverpool and Parc in Bridgend.

> In PFI negotiations there is bound to be tension between the Prison Service and the private sector

A recent Prison Service review has confirmed the Treasury's opinion that privately-built prisons cannot be transferred to public sector management under PFI rules.

But, against the backdrop of trouble at Parc, it is not surprising the government, through the Prison Service, is seeking to reduce costs and tighten the regulation of private managers by negotiating tougher contracts in future.

Parc opened in a blaze of glory, receiving praise from the National Audit Office for being built 45 per cent faster and 10 per cent cheaper than might have been expected by the public sector. Despite admitting to "teething problems" this year, Colin Petley, commercial director of Securicor, believes the contract at Parc offers a model. "The balance of risk was well defined", he says, "but I am concerned that other deals are squeezing money from the private partner and have tried to shift further risk on to the private sector."

The Net Present Value per place per year at Parc is £13,300, compared to £10,500 at Lowdham Grange and it is expected to be £10,400 at Agecroft.

"The trend is for the cost to come down and we want to continue in that direction," says a Prison Service negotiator.

To help keep costs down at Parc, the majority of services are index-linked on a formula of RPI + 2 per cent. By *Lowdham Grange*, the formula had come down to RPI + 1.5 per cent. "But indexation creates risks for us in terms of value for money," says the Prison Service negotiator, "which is why in principle we would prefer a system of benchmarking."

Encouraged by the NAO report and the MPs Public Accounts Committee, the Prison Service has pursued contracts for Agecroft and Pucklechurch which set costs against prevailing market conditions.

Mr Petley complains that "by abandoning inflation-linked performance and continually resetting costs against market prices, the Prison Service effectively wants to open up a sealed deal".

Another contentious issue is insurance. The contract for Parc identifies the Prison Service as insurers of last resort in the event that commercial companies refuse to insure the jail. However, Mr Petley says: "I understand that in the later negotiations over Lowdham Grange, the Prison Service insisted on a clause terminating the contract if insurers pull out. That would make it much more difficult for us to negotiate in the future."

In PFI negotiations there is bound to be a natural tension between the Prison Service, which seeks to win value for money for taxpayers, and the private sector which is trying to win maximum reward for carrying risks. At present, there is no doubt that the Prison Service has the whip hand – as Securicor is discovering at Parc.

Projects signed May 1997 to June 1998

Defence	£m
Army Personnel IT System	150
Defence Fixed Telecoms	70
Helicopter Simulator	100
Hawk Simulator	10
Tidworth Water	6
Joint Service college	65
Department for Education and Employment *(PFI/Public Private Partnerships)*	
Clarendon College	16
Colfox School	15
Falmouth College	3
UCL	14
Kings/UMDS	142
Employment Service IT System	150
Department of Environment, Transport and the Regions	
Harrow (IT) (LA)	1
Isle of Wight waste management (LA)	13
Surrey CC residential homes	28
Kirklees waste management	33
LB Westminster	5
Foreign Office	
2 small estate contracts	3
Northern Ireland	
Medical equipment	3
Belfast Hospital renal unit	3
Planning Services IT	3
Wales	
Chepstow Community Hospital	8
Health	£
Carlisle Hospital	63
Dartford and Gravesham Hospital	115
Norfolk and Norwich Hospital	214
South Bucks Hospital	39
North Durham Hospital	96
Home Office	
2 Passport Agency contracts each worth	15
Derbyshire (Ilkeston) Police Station	2
Inland Revenue	
Edinburgh accommodation	8
Glasgow accommodation	9
Lord Chancellor's Dept	
ARAMIS IT system	30
Scotland	
Baldovie waste to energy plant	43
Bowhouse Prison	32
Stirling FE Centre	4
Highlands and Islands Inverness Airport	10
Hairmyres Hospital	70
Dept of Social Security	
Longbenton estate	120
Prime DSS estate	360
Serious Fraud Office	
Document management IT system	4
TOTAL	**2,085**

Source: Treasury

LOCAL GOVERNMENT • by Alan Pike

Outsourcing is beginning to catch on

After a delayed start, PFI is gradually bedding down in local government

The government, backed by the personal involvement and authority of the prime minister, is engaged on a crusade to force Britain's local authorities to modernise and deliver higher quality, good value services.

There have been thinly-veiled ministerial warnings that local government's future scope, role and financial independence will depend on its willingness to reform itself. In this climate, few councils will fail to consider whether the private sector could help them sharpen up service standards.

That should be good for PFI which, after a delayed start, is gradually bedding down in local government. But it is uncertain what proportion of British councils' total private sector involvement will be through the precise PFI route.

Local authorities lend themselves to a variety of different forms of outsourcing, joint ventures and partnerships. That is why the *Public Private Partnership* Programme (4Ps), set up to promote PFI in local government, also advises on other forms of partnership and outsourcing.

This year has already seen groundbreaking local government outsourcing deals completed: notably CSL Group's £130m, 10-year contract to provide Sheffield city council with finance and IT services.

The Sheffield contract is significant not only for its size – one of the largest in local government – but for the fact that it involves a Labour-controlled, northern authority of the type that, in the past, took pride in keeping services in-house. It suggests that large-scale outsourcing is beginning to extend beyond an initial group of pioneering authorities, even though this sometimes reflects financial pressure more than the ideological conversion of councillors to contracting-out.

Last month, Hilary Armstrong, local government minister, announced nine more council PFI projects that will be in line for government revenue support when contracts are signed.

The nine – which are regarded as significant by the Treasury PFI taskforce – give a flavour of the potential variety of PFI schemes in the local authority field. They are for a transport interchange in Doncaster; street lighting in Staffordshire; waste management in Surrey; schools in Leeds, Sheffield and Tower Hamlets; police stations in Cumbria and Dorset; and a firearms training facility for the neighbouring Cleveland and Durham constabularies.

Last month's nine schemes take to 51 the number of projects identified for financial support by Ms Armstrong's department under a programme to help establish PFI in local government. The Treasury has allocated £500m to support new local government PFI investment in 1998-99, and this will rise to £800m each of the next three years.

So far, probably the most significant single PFI development in local government has been its growing acceptance as a way of meeting a substantial school building and maintenance backlog.

While only one English school contract has yet been signed – for a single new building in Dorset – a number of others are under negotiation. These include schemes to package together groups of schools for building or repair in Birmingham, Sheffield, Staffordshire, Stoke on Trent and Tower Hamlets.

In other education-related projects Dudley is seeking to use PFI to provide its schools' IT network, while Lewisham wants to apply the initiative to schools catering.

This month's transport white paper should clarify the scope for making increased use of PFI on transport-related schemes. "A large proportion of transport projects are originated or delivered by local government, and new powers such as road charging and operating traffic restrictions would affect the range of possible projects," says Peter Fanning, chief executive of 4Ps.

Mr Fanning's judgment is that PFI is now working in local government, but that transaction costs are often still unacceptably high. "Local government offers scope for small PFI projects as well as some very big ones, but you cannot expect to popularise small projects on the back of high transaction costs. I hope these will fall as the market matures, public policy becomes settled and familiarity with PFI increases."

School building and refurbishment is one of the big potential PFI markets in local government. With that now beginning to develop, and established as a priority for future Treasury revenue support, attention is turning to housing. Researchers from Coopers & Lybrand (now part of PricewaterhouseCoopers) have been examining the potential for using PFI to build and modernise social housing.

It is expected that their forthcoming report will be positive about the possibilities, particularly in circumstances where market demand for properties is uncertain and there is a need for investment in communities as well as in the physical housing stock. This, combined with announcements in this month's comprehensive government spending review of plans to spend £3.6bn on refurbishing 1.5m council properties over the next three years, is likely to increase interest in the use of PFI in the social housing field.

The strange case of the vanishing opera

The beleaguered officials at the Lincoln Center Festival, New York were the ones who needed the hot towels, reports Martin Bernheimer

The third Lincoln Center Festival, which opened anticlimactically on July 7 and closes, perhaps mercifully, on Sunday, centred on a non-event.

The main attraction was to have been *The Peony Pavilion*, a heroic 400-year-old example of Kunju opera by Tang Xianzu, touted US-style as "the Shakespeare of China". The epic had been recreated by a theatrically progressive scholar, the expatriate Chen Shi-Zheng, for the Kunju company of Shanghai in a production that was to span 22 hours (to be split into six episodes, or presented for the hardy as a single mighty marathon).

The action during this legendary depiction of love and war, life and death as passed to us from the Ming Dynasty was to have been continuous through each three-and-a-half hour segment, but the audience was invited in advance to chat, eat, sip tea, move about, and/or apply hot towels to the forehead.

As matters turned out, the beleaguered Lincoln Center officials were the ones who needed the hot towels. Protesting at what she regarded as unacceptable revisionism of an ancient masterpiece, Ma Bomin, head of the ultra-conservative Shanghai bureau of culture, blocked the aesthetic exportation.

She reportedly found the version to be presented in New York in conflict with the "traditional" edition sanctioned by the Communist regime. The elaborate sets, costumes and props were first held up in Shanghai, then released at the last minute. The actors, however, were not allowed to leave China.

It was hoped that intervention by that trusty cultural emissary Bill Clinton, who happened to be visiting Shanghai on the eve of the festival, might salvage the lavish project as well as national pride. In the end political expediency triumphed over artistic freedom, after a fashion. Mum remained the presidential word.

The festival had been planned by John Rockwell, a critic-turned-impresario who had returned to the New York Times as an arts editor months before the great Chinese imbroglio. The Times assured its readers that Rockwell would not be involved in coverage of what would have been his own extra-curricular agenda.

'Patience & Sarah' attracted attention because it was heralded as the first lesbian opera, and was rapturously embraced by the sort of partisan audience that cheers the home team at football rallies

Embracing an eclectic sprawl of music, dance and drama, the festival bravely limped onward if not upward without its peonies. All opening-night performances were dedicated to the absent Chinese, and that was that.

The New York Philharmonic, one of America's finest not-quite-top-class orchestras, devoted its inaugural concert to music of Leonard Bernstein – this year's almost-ubiquitous memorial protagonist – and to music of Bernstein's idol, Gustav Mahler. Kurt Masur, the resident Kapellmeister, scheduled the former's portentous and pretentious *Age of Anxiety*, a.k.a. Symphony No. 2, as a prelude to the less-than-festive familiarities of the latter's Symphony No. 1. Not too surprisingly, the public stayed away in quasi-droves.

At this juncture, Bernstein's orchestral noodling and doodling with jazzy piano obbligato, *anno* 1949, sounds like *eine grosse* Junk-musik, and Masur doesn't gyrate on the podium or mime ecstasy nearly as beguilingly as Bernstein himself did. Lukas Foss, who had played the piano under the composer at the Philharmonic premiere in 1950, returned to the rather thankless task with spiffy nonchalance. When it came to the Mahler ritual (shorn of the *Blumine* movement, alas and of course), Masur found himself back on terra cognita. Business as usual.

There was a greater sense of occasion – everything is relative – when Masur presided over the US premiere of Krzysztof Penderecki's *Seven Gates of Jerusalem* (first performed in Jerusalem in 1997) in conjunction with another of the various festival leitmotifs: the 50th anniversary of the founding of Israel.

The tubby acoustic of Avery Fisher Hall was sorely tested by Penderecki's indulgent forces, with three percussive orchestral units and three stentorian choirs stationed around the auditorium. The 55-minute oratorio – a rather meagre meal by itself – teeters a bit between primitive neo-romantic force and bald bombast, and the performance proved more notable for noisy spirit than for discreet precision.

Still, one had to be grateful for a trace of originality. One also had to applaud the unbridled bravado of both the composer and his interpreters. The non-capacity audience did just that, lustily.

Offering an odd variation on the Bernstein theme, the Hamburg Ballet paraded a clutch of ill-fitting clichés about the composer as social and sexual outsider in a so-called revue entitled, not surprisingly, *Bernstein Dances*.

John Neumeier's narrative choreography tried desperately to avoid invoking Jerome Robbins and invoked little else in the process. The pastiche score bumbled from Bernstein's snazzy show tunes to his slick wannabe-profound chamber music, and the costumes of Giorgio Armani looked oh-so-chic. This was hardly a great night for music, for dance or for invention. At least it avoided the triteness of the Stuttgart Ballet, which came calling with a matched pair of tried and tired oeuvres of John Cranko: *Romeo and Juliet* and *Onegin*.

The cause of novelty was better served, but not much, by *Patience & Sarah*, a mock folk-opera by Paula M. Kimper (score) and Wende Persons (libretto), based on a story by Isabel Miller. It attracted a lot of attention because it was heralded as the first lesbian opera, and it was rapturously embraced as such by the sort of partisan audience that cheers for the home team at football rallies.

The music could have been written 80 years ago, and probably should have been. Basically, this turned out to be a pretty-pretty, simple and simplistic, ultimately mawkish three-act essay on the joys of romance and the evils of prejudice in Connecticut at the turn of the 19th century. The sweetly innocuous product, pleasantly performed on the opera-workshop level, delivered one uplifting message: love conquers all. Oh dear.

A refreshing departure from convention: the newly-weds driving off in a Fiat 500 after their marriage in Janáček's 'The Cunning Little Vixen'

MUSIC FESTIVAL OF TWO WORLDS, SPOLETO

Popular appeal of broader horizons

The appointment of Richard Hickox has given the festival a new lease of life, writes Luciano Chianese

Doubts about the future of the Festival of Two Worlds at Spoleto were dispelled this year, as the two-week cultural marathon in this Umbrian hill-town reaped the fruits of tighter financial management and a more varied programme.

The festival's 87-year old founder, Gian Carlo Menotti, has clarified his position as artistic director, while leaving the finances in the hands of his adopted son Francis. Two years ago the festival was running a L5bn (£2m) debt, accumulated after years of over-spending and progressively dwindling audiences. The fund that partly administers the festival, made up of local banks and the town council, was wary of Menotti's plans to have his son succeed him as festival director, only backing down when both the late Giorgio Strehler and Luciano Berio refused to take over in the event of the aged composer's death.

The accounts are now close to breaking even, thanks to full houses at many of this summer's events and an increase in the list of sponsors. And with the appointment of Richard Hickox as principal conductor, the festival seems to be entering a second birth in terms of popularity and programming. Hickox's working relationship with Menotti dates back to the composer's time as director of the Rome Opera. His interest in Menotti's music also played a part in the signing of his three-year contract.

In view of the administrative problems the composer has been encountering over the past three years, the choice of *The Consul* – Menotti's scathing depiction of bureaucratic inefficiency and corruption – was viewed by some as an ironic choice for this year's programme. But it remains one of his better-known and most beautifully written operas, and the public acclaim for the festival's latest production was justified. Hickox drew heightened levels of drama from both orchestra and singers, and Susan Bullock's performance as Magda Sorel, the opera's tragic heroine, was distinguished by histrionic conviction and powerfully expressive singing.

True to his association with British music, Hickox chose to conduct Bliss's *A Colour Symphony* and Holst's *The Planets* at the opening concert. Traditionally an evening which only hardened socialities with well-lined purses are able to attend, this year's concert was held in the main square instead of the cathedral, due to damage suffered during the earthquakes that shook Umbria last autumn. To help introduce Holst's music to the uninitiated, it was accompanied by a spectacular lighting show by Valerio Festi, including air-borne dancers suspended from huge balloons sweeping over the audience. Little did it seem to matter that the orchestra's fine rendition was drowned by amplification.

Meticulous attention to detail and orchestral colour characterised Hickox's conducting of *The Cunning Little Vixen*. David Hughes' heavily sexed costumes, and a killing scene in which the Vixen was stripped of her fur coat and left completely naked, provoked indignation among some members of the audience, but the production as a whole was delightfully inventive, maintaining a fine balance between comedy and tragedy.

The marriage scene, in which the newly-weds drove off in a Fiat 500, was a particularly refreshing departure from the way Janáček's opera is conventionally treated. Rebecca Caine coped admirably with the vocal demands of the title role, while Hickox's wife Pamela Helen Stephen was cunningly cast as the Fox.

Hickox's involvement looks set to ensure a much-needed period of stability. And at the closing concert, he conducted Rakhmaninov's *The Bells* – a choice which adds to the impression that Hickox intends to explore broader horizons than the popular repertoire associated with this event in recent years.

POP WORLD MUSIC RELEASES

Beguiling fusion of different styles

As if in sympathy with its close cultural cousin, football, pop music has gone into a post-World Cup lull. An excellent time, then, to greet two vibrant – and beautifully packaged – new releases from Chris Blackwell's new independent world music label Palm Pictures.

Baaba Maal was born on the border between Senegal and Mauritania, so it is no surprise that musical frontiers hold little authority for him. On *Nomad Soul* he mixes hard soul, roots reggae, Irish motifs and even a sprinkling of ambient music with intoxicating results.

Maal is also impressively studio-wise, using a range of producers and musicians to exact subtle variations from his band, Daande Lenol. The best illustrations come in the album's opening and closing tracks: "Souka Nayo" blends a plaintive chorus from Sinead O'Connor's backing singers, the Screaming Orphans, with Maal's touching lament on the decline of the family. The potentially calamitous Irish-African mix works, an invisible musical thread holding it all together.

"Lam Lam", a collaboration with Brian Eno, Howie B and Jon Hassell, creates a sparser soundscape, in sharp contrast to the dense mixes elsewhere, and brings the album to a soft, meditative close. A work of great musical intelligence.

Ernest Ranglin's *In Search of the Lost Riddim* is a more orthodox, but equally beguiling fusion of styles. Jamaican-born, 66-year-old Ranglin, erstwhile guitar teacher to one Bob Marley, was also one of the founders of ska music, the subtle rhythms of which underpin much of his latest work.

The title refers to a return, after 30 years, to Africa, where he has used local musicians to give his jazz-inflected guitar-playing fresh impetus. It is a lovely, sunny sound, all tinkling guitars and delicious variations of rhythm, and a marvellous antidote to the current spell of vegetative British weather.

More obviously aimed at the summer market are two new releases from José Padilla, master of the hot weather chill-out. *Souvenir* (Mercury) is cool, jazzy, awash with Latin beats and easy listening riffs. Padilla is also the man behind the compilation *Café del Mar: Volumen Cinco* (Manifesto), which is basically more of the same.

Both of these achingly fashionable discs are a little like expensive bottles of after-sun lotion, superficially cool, instantly absorbable, but give it 15 minutes and you've forgotten it is there at all.

It prompted a moment of reflection: think back to the gushing summer sounds of the 1960s – The Beach Boys, Jan and Dean et al – which celebrated youthful innocence, rushing to the beach with a surfboard and the promise of a stolen snog behind the dunes. Today's beach party moves to a very different beat: mellow, reserved, ironic. Not much fun at all really. I blame the thinning ozone layer.

Peter Aspden

Intoxicating: Baaba Maal mixes hard soul, roots reggae and Irish motifs

INTERNATIONAL

Arts Guide

BONN

EXHIBITION
Kunstmuseum
Tel: 49-228-776 260
Parti Pris: more than 400 photographs by designer Karl Lagerfeld, including portraits, architecture and landscapes; to Jul 26

DUBLIN

EXHIBITION
Irish Museum of Modern Art
Tel: 353-1-612 9900
William Scott: Paintings and Drawings. 90 works drawn from public and private collections; . to Nov 1

GLIMMERGLASS

OPERA
Alice Busch Opera Theater, Cooperstown
Tel: 1-607-547 2255
● Falstaff: by Verdi. New production directed by Leon Major with sets and costumes by John Conklin. Conducted by George Manahan. Cast includes Kevin Glavin, Stephen Powell and Amy Burton; Jul 24, 30
● Partenope: by Handel. New production directed by Francisco Negrin, in his Glimmerglass debut, and conducted by Harry Bicket. Cast includes David Daniels and Lisa Saffer in the title role; Jul 25, 28
● The Mother of Us All: by Virgil Thomson. Conducted by Stewart Robertson in a new staging by Christopher Alden, with sets by Allen Moyer; Jul 26
● Tosca: by Puccini. New staging by the team responsible for last year's Madama Butterfly: director Marc Lamos, set designer Michael Yeargan, costume designer Constance Hoffman, lighting designer Robert Wierzel and conductor Stewart Robertson; Jul 27

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Capriccio: by R. Strauss. Revival conducted by Andrew Davis and directed by John Cox. The Countess is sung by Kiri Te Kanawa until Aug 5 and thereafter by Felicity Lott. With the London Philharmonic Orchestra; Jul 26, 30
● Rodelinda: by Handel. New production directed by Jean-Marie Villégier, with sets by Nicolas de Lajartre and Pascale Cazales. With the Orchestra of the Age of Enlightenment conducted by William Christie; Jul 24
● Simon Boccanegra: by Verdi. New production conducted by Mark Elder in a staging by Peter Hall. With the London Philharmonic Orchestra. The title role is sung by Elena Prokina; Jul 25, 28

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC Symphony Orchestra: Matthias Bamert conducts the UK premiere of Weill's Propheten, and Mahler's Symphony No. 4 in G major. With the BBC Symphony Chorus; Jul 26
● Dresden Staatskapelle: conducted by Bernard Haitink in works by Mozart and Bruckner; Jul 24
● Solomon: by Handel. Paul McCreesh conducts the Gabrieli Consort and Players. Cast includes Andreas Scholl and Alison Hagley; Jul 27

Wigmore Hall
Tel: 44-171-935 2141
Rodney Gilfry: recital by the baritone of a programme including works by Schubert, Schumann and Gershwin. Accompanied by Roger Vignoles; Jul 24

DANCE
Queen Elizabeth Hall
Tel: 44-171-960 4242
New York City Ballet: in London for the first time in over a decade, with a programme of works by Balanchine, d'Amboise, Wheeldon and Dove. Visiting soloists are Antonia Francheschi, Peter Boal, Albert Evans, Darci Kistler and Wendy Whelan; Jul 30

EXHIBITIONS
Tate Gallery
Tel: 44-171-887 8000
Lucian Freud: Some New Paintings. More than 20 recent works, many of them completed during the last year and never before publicly exhibited in Britain. Includes characteristic, large-scale studio nudes, and portraits of the artist's daughters; to Jul 26

Victoria and Albert Museum
Tel: 44-171-938 8500
The Power of the Poster: including classic images from the 1880s and 1890s as well as the work of contemporary designers and agencies; to Jul 26

OPERA
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
Falstaff: by Verdi. Semi-staged production directed by Ian Judge. With the Monteverdi Choir and Orchestre Révolutionnaire et Romantique conducted by John Eliot Gardiner; Jul 25

MUNICH

OPERA FETIVAL
Bayerische Staatsoper
Tel: 49-89-2185 1920
● Die Wände: by Wagner. Conducted by Jun Märkl in a revival of Nikolaud Lehnhoff's staging. With Placido Domingo; Jul 25
● Le Nozze di Figaro: by Mozart. Conducted by Peter Schneider in a staging by Dieter Dorn, designed by Jürgen Rose. Cast includes Amanda Roocroft and Alison Hagley; Jul 26, 29

SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
www.santafeopera.org
The Magic Flute: by Mozart. New production by Jonathan Miller, with sets by Roni Toren and costumes by Judy Levin. Cast includes Sheri Greenawald; Jul 24

SCHLESWIG-HOLSTEIN

CONCERT
Schleswig-Holstein Music Festival
Tel: 49-431-567 080
Philharmonie der Nationen: conducted by Justus Frantz in works by Liszt and Bartók. With piano soloist Stanislav Ioudenitch; Deutsches Haus, Flensburg; Jul 24

ST PETERSBURG

EXHIBITION
State Hermitage Museum
French Master Drawings from the Pierpoint Morgan Library: featuring 120 drawings, sketchbooks and albums drawn from the library's permanent collections. Highlights include works by Cézanne, Delacroix, Ingres and Poussin; to Jul 25

STUTTGART

OPERA
Staatsoper Stuttgart
Tel: 49-711-202090
● Lady Macbeth of Mtsensk: by Shostakovich. Revival conducted by Alexander Polianichko in a staging by Johannes Schaaf, with sets by Nina Ritter and costumes by Franz Lehr; Jul 24, 28
● Tosca: by Puccini. New production by Willy Decker, conducted by Lothar Zagrosek with designs by Wolfgang Gussmann; Jul 24

TANGLEWOOD

CONCERT
Tanglewood Festival
Tel: 1-617-931 2000
Boston Symphony Orchestra: conducted by André Previn in works by Vaughan Williams, Chopin and Beethoven. With piano soloist Emanuel Ax; Ozawa Hall; Jul 24

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Osaka Philharmonic Orchestra: conducted by Takashi Asahina in Bruckner's Symphony No. 5; Jul 26

DANCE
Orchard Hall, Bunkamura
Tel: 81-3-3477 9999
National Ballet of Spain; Jul 25, 26, 28, 29

EXHIBITION
Odakyu Museum
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Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. A member of the fin-de-siècle avant-garde, Beardsley left England for Dieppe following Wilde's disastrous libel action and subsequent imprisonment in 1895; from Jul 24 to Aug 16

VERONA

OPERA
Arena di Verona
Tel: 39-045-800 5151
www.arena.it
● Tosca: by Puccini. New production by Giuliano Montaldo, with sets by Luciano Ricceri. Cast includes Ruggero Raimondi and the conductor is Angelo Campori; Jul 25
● Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo. Conducted by Daniel Oren, with a cast including Maria Guleghina; Jul 24

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05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

PHILIP STEPHENS

Hippies and yuppies

Western politics is defined by two revolutions. The social one of the 1960s is as pervasive as the economic one of the 1980s

In Britain, Tony Blair supports legislation to lower the age of consent for homosexuals. Across the Atlantic, New York's tough-guy Mayor Rudolph Giuliani sponsors a move to afford gay couples the same rights before the law as married heterosexuals.

An unimportant coincidence, you might say. I think otherwise. These small genuflections to tolerance from politicians who would not take it amiss if called social conservatives tell us something else. They are emblems of the liberal settlement that has come to define the parameters of western political discourse.

It has become part of the dull consensus of modern life that the Reagan-Thatcher revolution is irreversible. There may be room for disputes at the margin, but market-driven economics is here to stay. Government may be a little more or a touch less active. It will never again be big. Bill Clinton agrees. So does Mr Blair. So, though it is loath to say it, does most of what might be loosely called the European left.

Yet as we worship at the altar of fiscal frugality and flexible markets, the temptation is to forget that other seminal event of postwar politics. Before the 1980s came the 1960s. Before economic liberalism came social liberalism. We applaud the former, but are strangely reticent about acknowledging the transformation wrought by the latter.

For all the present rhetoric of social conservatism, the substance, if not the spirit, of the 1960s lives on. And its cohabitation with the economics of the 1980s marks out the contours of the new political settlement.

Fusion, this phenomenon has been called by Mark Lilla, a New York-based political scientist who has explored its impact on the US electoral scene. The lesson of the Clinton presidency, he concludes, is that the politics of contentment in the US is built on these twin pillars of 1960s morality and 1980s economics.*

The synergy is obvious. Both upheavals saw the individual pitted against the intervention of the state. Freedom and the individual were the battle cry, hedonism the pagan god. The hippies and the yuppies had more in common than either is content to admit.

You might not guess this from listening to today's politicians. Even now, Mr Blair finds it necessary to protest that, alone among his generation at Oxford, he did not smoke dope. Mr Clinton, we are asked to believe, did not inhale.

As for Mr Giuliani, who incidentally is also on the pro-choice side of the abortion debate, he is more popularly known for his zero-tolerance approach to crime, pimps and pornographers than for siding with gays. And if Mr Blair thinks 16-year-olds can decide their sexuality (against the temper this week of the bishops and bigots in Britain's House of Lords), he still looks more relaxed preaching the gospel of family life.

Yet in all its essentials, the social revolution of the 1960s is as entrenched as the economic orthodoxy of the 1980s. Put aside the images of flower children, dope and draft-dodging, and the broad framework of social liberalism is intact. For all the periodic hand-wringing about moral standards, most of us agree that to be civilised is to be tolerant.

Thus we can (and should) lament an explosion in the number of divorces, but there is no groundswell of opinion that says that people should once again be locked in loveless marriage. In the US, opinion polls suggest a majority favour somewhat tighter regulation of abortion, but, *pace* the Christian Coalition, there is no popular mandate to overturn the Supreme Court's historic pro-choice ruling in Roe versus Wade.

Equality for women is now a given, even if the practice still lags behind the theory. Civil rights for ethnic minorities are strong enough to survive disputes over the merits of affirmative action. And, of course, we are all environmentalists now.

True, a sharper line is being drawn between liberalism and libertarianism. If we have little interest in the sexual preferences of consenting adults, tolerance does not extend to the spread of child pornography on the internet. Social liberalism can make the distinction between liberty and licence.

And in welfare policy 1990s responsibilities are being attached to 1960s rights. One of Mr Clinton's former aides had a good phrase for it – "liberalism with standards". The hippies never quite saw the confusion in demanding freedom in one breath and a handout in the next.

These, though, are all relative shifts. They modify, but they do not challenge the essential assumptions of the social revolution. Britain's House of Lords can delay the granting of legal equality for gay teenagers, but even an institution so smug in its own morality cannot turn back the tide.

There is a near-perfect symmetry here with the present response to the 1980s culture of economic individualism. The vital principles of that revolution have been assimilated. But Messrs Clinton and Blair are seeking to mitigate the social consequences. The freedom to make money goes unchallenged. But the centre-left restores a role to government in levelling the playing field of opportunity.

Thus we see social conservatives on left and right seeking to check, but not overturn, the self-indulgent excesses of the 1960s, while New Democrats and New Labourites try to take the rougher edges off the 1980s narcissism. In both instances, the urge is not so much to restrict individual freedoms but to relocate them in social communities.

Public opinion on these issues, of course, is often shot through with contradictions. Middle America can abhor the sexual mores of others while affirming their freedom to hold them. Middle Britain can demand better schools and hospitals and tax cuts in the same breath. Social liberals can be economic conservatives and vice versa.

What seems incontestable, however, is that the two liberalisms now define the terrain on which elections are fought and lost. Hippies make money and yuppies smoke dope. The mistake made by the left in the 1980s was to refuse to accept the Reagan-Thatcher revolution. Many on the right now make the same error in disavowing the 1960s.

Republicanism – as we see from the Senate majority leader Trent Lott's recent attacks on the supposed "sin" of homosexuality – is fast becoming the prisoner of moral majority fundamentalism. At which point anyone who can secure the Republican nomination seems unlikely to attract sufficient support to win the presidency.

Nothing of course is forever. Politics, like history, has no end. Someone, sometime, will discover another, even a third, way. But for now, as Mr Lilla puts it, the revolution is over, and the revolution is ours.

**A Tale of Two Reactions, Mark Lilla, the New York Review, May 14 1998*

LETTERS TO THE EDITOR

'Natural' unemployment rate must threaten government's agenda

From Professor Ronald Dore.

Sir, Doctors 2.6 per cent. Private sector average 6.2 per cent. Boardroom pay 18 per cent.

Incomes policy? Unmentionable. Martin Wolf's adjustment through growth slow-down ("The adversity test", July 22)? Marginal.

Surely, whatever the pain to "the markets", some form of income surtax now becomes politically unavoidable.

Ronald Dore,
London School of Economics,
Centre for Economic Performance,
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London WC2A 2AE, UK

From Mr Peter Robinson.

Sir, It was refreshing to see Martin Wolf spelling out what has been implicit in Treasury documents for the last 12 months: that a rise in unemployment is perceived to be necessary by the government in order to curb inflation ("The adversity test").

I would be even more explicit than Mr Wolf. If he and his FT colleagues are right that the "natural" rate of (claimant) unemployment consistent with steady inflation is between 7 and 8 per cent, then we are in for a rise in unemployment of at least three-quarters of a million.

If the Treasury is right that we fall below the natural rate in the first half of 1997, then claimant unemployment has to rise by at least one third of a million. I say "at least" because of course the current orthodoxy tells us that unemployment initially has to rise above the natural rate before inflation will fall. So the Treasury must be bargaining for at least half a million extra claimant unemployed.

These kinds of figures do not amount to a mere minor correction in the labour market. They signal major economic and social costs, which are likely to throw much of the government's agenda off course.

On the other hand: is there anyone else out there who is uncomfortable with this orthodoxy and thinks that we do not need another damaging recession? As Martin Wolf has said, at least let us have an open debate on these matters.

Peter Robinson,
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Diplomatic

From Mr Patrick Guthrie.

Sir, Dietrich Toepfer (Letters, July 22) asks, in the spirit of good Franco-German relations, how is Germany going to be compensated for France winning the World Cup? As a cycling fan, I think I have the answer. The French are helping the German, Jan Ullrich, win the Tour de France by disqualifying the strong Festina team from the race. A case of the wheels of diplomacy?

Patrick Guthrie,
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112 Belgrave Road,
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Fly the train

From Mr Paul Gooderham.

Sir, Your report regarding KLM's operational difficulties at Schiphol airport is timely ("KLM warns problems of Schiphol may hit profits", July 16). Recently I missed a connecting KLM flight and when I contacted the airline's representative to inquire whether I could be booked on to the next flight I was told it was full and that anyway, and I quote, "It's quicker by train."

Paul Gooderham,
Ernst Sars v.16,
5032 Minde,
Norway

Picking and choosing what laws to enforce

From Mr A. Morgado Pires.

Sir, I refer to your leader "Grey import whitewash" (July 17). All your comments ignore the fundamental point:

The proven existence of "dumping".

What you suggest is that anti-dumping law, covered by the World Trade Organisation, is not to be enforced or that rule of law can be applied according to the convenience of each country, the EU in this case.

Then the obvious issue arises. If the laws are not compulsory, if it is up to individuals to decide whether each one is to be enforced or not, they become "virtual laws" and we will live in a "virtual world". What kind of future world are you defending?

A. Morgado Pires,
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Portugal

Time for Cambridge to research a better form of development

From Mr Richard Hadden.

Sir, As a Cambridge alumnus and venture capitalist (currently on secondment to the European Commission looking at long-term research commercialisation), it is good to see the West of Cambridge scheme getting national coverage (Reporting Britain 98: "Heading west to compete with the US 'Ivy League'", July 16). Now people know about it, perhaps they will try to stop it. Just when the tide is turning against out-of-town, greenfield development, the university has suddenly discovered the discredited idea of the campus. "West Cambridge" will produce increased traffic. It will take custom away from city-centre shops (no more popping across the road for a sandwich), but makes no provision for replacement facilities on site.

The project will produce a scientific ghetto, without amenities or life. The Cavendish Laboratory moved out there long ago and it is a bleak and cheerless building full of physicists. Cambridge is not full, it is wasted. Instead, the university should make better use of brownfield sites. I do not mean just the old gasworks or cattle market, although they would be a start. Much of Cambridge is covered by cheap Victorian housing – currently fetching ridiculous prices – on college land. Mixed, denser redevelopment, building to four storeys, say, with cellars, would alleviate the housing shortage, supplant the dying college fee and free land for academic buildings and for scientific companies.

We have begun to succeed at developing the technologies we invent; it is time we learnt to develop our cities.

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FT INTERVIEW GORDON BROWN

No truck with the doubters

In combative mood, the UK chancellor tells Robert Peston that he will not be blown away by criticism

Gordon Brown's place in history was probably decided last week, with his announcement of a three-year spending programme for the remaining years of the Labour government.

What remain unclear, through, is which version of his place in history will prevail. He wants to be seen as the miracle-working chancellor who married Labour's age-old commitment to spending on health and education with a framework of fiscal and monetary stability.

But among his enemies – and they are legion both inside and outside his party – there is a conviction that he will be seen as yet another boom-bust chancellor. They say that the champion of economic prudence has made a huge and dangerous gamble, by promising rapid public spending growth at a time when the economy is poised on the brink of recession.

Mr Brown will have no truck with the doubters. "On any basis this is a prudent [public spending] settlement based on cautious assumptions," he insisted, sprawled out on a sofa at one end of his vast room in the Treasury. He was dismissive of forecasters who questioned the Treasury's economic growth assumptions of 1¾ per cent next year and 2 per cent thereafter. "If you look at retail sales, consumer spending, the general state of growth in the economy, these are consistent with the forecast we have actually made."

The Tories are warning, however, that government borrowing and/or taxes will have to rise towards the turn of the century.

"I stand by the figures we set out and we will deliver these figures," Mr Brown said. "My whole policy is to be judged by results. We will come within these projections."

His mood was combative. "Nobody was convinced in our first year we would meet our spending target and we did. Nobody was convinced we would reduce public borrowing and we did."

He would be "seen to be comfortably meeting" his "fiscal rules", which are that the government should only borrow over the course of the cycle to finance investment – rather than current expenditure – and that the ratio of public debt to gross domestic product should tend towards the "sustainable and prudent" level of 40 per cent.

He was outraged that he should be attacked by the Tories for "fiddling the figures". His accounting methods and forecasting techniques were "far more cautious than the previous government".

Anyway the economy was "performing as we said it would". In the faintest echo of the last Tory government's contentious "it hurt but it worked" justification of early 1990s recession, he said the slowdown was "necessary" to move the economy to "a path of sustainable growth".

The implication appeared to be that he was braced for a rise in unemployment, which would be profoundly embarrassing given the £5bn he is spending on job-creation schemes through his so-called New Deal.

But he would have none of it. There might be a rise in labour shedding, but he said it was extremely unclear whether this would lead to a rise in unemployment. Much depended on the government's myriad schemes to find work for the young unemployed, the long-term jobless, single parents and the disabled.

Meanwhile, he understood fears about the impact on jobs of the level of sterling, but felt they were exaggerated. "There is a difference between a pound at DM3.10 [its peak] and a pound at DM2.93 [the current level]."

His major concern remained the level of wage inflation, which was far too high. "The one factor I have been drawing attention to all the time these last few months is wages."

There was a warning to businesses and trade unions, when he pointed out that the Bank of England's mandate to hit the government's 2.5 per cent inflation target overrode all other economic concerns.

"In the new system the inflation target will be met. It can either be met by people paying themselves responsible wage settlements or it can be met by higher interest rates."

There was a trade-off within "individual companies" between pay increases and job creation, but they would "have to make their own decisions about how they move ahead".

When pressed on whether

> **'The one factor I have been drawing attention to all the time these last few months is wages'**

company directors were rewarding themselves excessively, he said there had "to be leadership on these matters from the boardroom upwards" and it was "a matter of leadership and responsibility".

However, it was "not a matter for the government to set wages in the boardroom", although he was prepared to intervene to curb alleged greed by utility company executives. "I am particularly concerned about what happens in a monopoly where there is no consumer power being exercised."

His other obsessions of the moment are competitiveness and competition. Never reluctant to stray into the territory of Margaret Beckett, the trade and industry secretary, he indicated his preference for stripping the Department of Trade and Industry of its quasi-judicial role as the ultimate arbiter of whether takeovers and mergers should be permitted.

"I believe we will have to consider further steps to improve competition in the economy." One possible way was "to do for competition policy what we have done for monetary policy". This would entail the DTI setting "rules and objectives" but leaving decisions to "independent competition authorities" either at the level of the European Union or domestically.

Meanwhile, he was haunted by the productivity gap between the UK and its main international competitors, which he estimates at between "40 and 50 per cent".

He has been holding seminars of business people, policymakers and academics to discuss possible cures. "That productivity issue goes right across the economy and it is not simply a problem of manufacturing. Even in some of the newest industries, including services, we are going to have to do a great deal better."

Even though he has already had two Budgets, one "green budget" and two detailed spending announcements since the election in May 1997, he was "already thinking of the next Budget and how we can remove fiscal, regulatory, cultural barriers that exist to higher productivity in this country."

This is a minister who apparently sees himself as chief executive of UK plc, while the prime minister is chairman, possibly a non-executive one. He was not remotely abashed by allegations that he had increased the Treasury's sway over all other departments, by linking the provision of new resources to the effectiveness with which it is spent.

"The challenge is to manage expenditure in terms of outputs and what you are going to achieve over a period of years and that is why there has to be proper assessment of whether the targets you set down are being met and how they are being met," he said. "That will require an auditing function as well as a scrutiny function."

As for anyone who should question the righteousness of his purpose, he was characteristically blunt. "We are not going to be blown away by the first hint of criticism."

KKR sets its sights on Europe

William Lewis assesses the latest deal by the US buy-out specialists to purchase Willis Corroon

Is the much heralded "invasion of Europe" by leading US buy-out groups finally about to happen? Predictions that US buy-out specialists such as Kohlberg Kravis Roberts would come to dominate the European private equity market have been as common as sightings of UFOs. They have also been about as accurate.

This week, however, saw Europe's largest public-to-private deal of the decade. On Wednesday, KKR announced that together with five investment partners, it had agreed to buy Willis Corroon, the UK-based insurance broker. The deal valued the company at £951m, more than three times any previous KKR deal in Europe.

"The chances are that we are now going to buy more companies in Europe," says Henry Kravis, founding partner of KKR. "It is a trend that has been going on for a couple of years that should now start to become a reality," adds Ben Sullivan, who helps private equity firms raise funds at Merrill Lynch, the US investment bank.

Private equity groups, otherwise known as leveraged buy-out (LBO) firms, specialise in raising funds from institutional investors, which they then invest over a ten-year period. Typically, they take over public companies that, they think, are undervalued by stock markets, boost the profits and cash in by selling it to a trade buyer or floating it on the stock market.

In the late 1980s, this activity got a bad name in Europe. Several US companies failed with headline-grabbing takeover attempts. Wasserstein Perella, for example, an investment bank, lost out on its hostile attempt to take over Gateway, the UK food retailer, in 1989. The reputation of being "barbarians at the gate" (the title of a book about KKR's buy-out of RJR Nabisco) did not help.

Two things may now alter this: the gigantic sums being attracted into buy-out funds in the US and changing attitudes in Europe.

In the second quarter of this year, US buy-out funds raised more than $23bn of new money, according to Buyouts, the US newsletter. This is the highest amount ever raised in a single quarter and beats the amount raised in the whole of 1996. Michael Klein, co-head of acquisition finance at Salomon Smith Barney, the investment bank owned by Travelers Group, says there are now at least 60 US firms that have each raised more than $1bn of equity. On the basis that private equity firms are able to leverage their investment funds by at least four to one, KKR's $6bn fund gives it buying power of around $24bn.

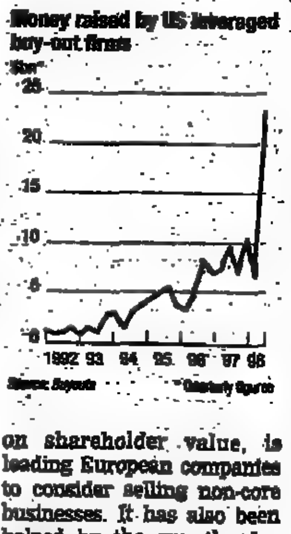
US buy-out funds typically are permitted to invest around 25 per cent in non-US businesses. In the past, they have stopped short of fully exploiting this, but with takeover prices for public companies reaching new highs in the US, executives say that is likely to change with increased European investments. That would imply the funds increased the amount they could spend in Europe by up to $7bn in the first three months of the year alone or up to $28bn given the four-to-one ratio.

Many of the US firms have opened offices in London and are relocating senior executives or recruiting in Europe for staff. In addition, there are approximately 10 European funds, which have raised at least $1bn of equity, Mr Klein says. "Both US funds and larger European funds are now looking more actively than ever before for large deals in Europe," he says.

The time seems ripe because of changing European attitudes. In the words of the New York-based head of M&A at a US investment bank, "there are great swathes of out-of-favour, underperforming or just boring medium-sized public companies in Europe that now appear willing to be snapped up and taken out of the stock market".

The change has been inspired partly by the move to a single currency, which along with increased focus on shareholder value, is leading European companies to consider selling non-core businesses. It has also been helped by the growth of a junk bond market on the continent: that provides US buy-out funds with the instruments they use in arranging LBOs at home.

Money raised by US leveraged buy-out firms



Source: Buyouts   Quarterly figures

"The main change is the fact that opportunities are coming up," says Mr Kravis.

True, not all investors are quite so bullish. Stephen Schwarzman, whose Blackstone group recently acquired the Savoy Hotel group in the UK, points out that "with stock markets in Europe hitting record highs, you are unlikely to find bargains".

Even so, if Europe merely begins to close the gap with the US, it would still see a big increase in LBOs. Last year, according to Buyouts, US private equity firms spent $28bn in buy-out deals in America while European equity firms, according to the European Venture Capital Association, spent $5bn. If Europe one day has a third as much LBO activity as the US, it would mean almost doubling the business.

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FINANCIAL TIMES

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Friday July 24 1998

Power games in Iran

The hardliners in Iran's Islamist revolutionary regime presumably believe they claimed an important scalp yesterday by sentencing Gholamhossein Karbaschi, the mayor of Tehran, to five years in jail and a heavy fine for alleged embezzlement.

Yet the battle over Iran's future between reformers around President Mohammed Khatami and conservatives loosely grouped behind Ayatollah Ali Khamenei, the Islamic republic's Supreme Leader, will not be decided in a rigged court. Mr Karbaschi, moreover, whose popularity is second only to the president's, has seen his prestige as a courageous reformist much enhanced by this blatantly political show trial.

The 45-year-old mayor's real crime was that he was the chief strategist of Mr Khatami's landslide election victory last May, from which the conservative establishment has yet to recover. The theocrats, having lost their legitimacy at the polls, have been reduced to petulant revenge. This will not advance their cause.

True, Ayatollah Khamenei retains control of the armed forces, the Revolutionary Guard, and the judiciary. But the myriad and competing power centres controlled by the conservatives have been unable to regroup, and have tended more to random provocation than a coherent response to the reformists.

In June, for instance, the thin conservative majority in the *Majlis* (parliament) impeached Abdollah Nouri, one of Mr Khatami's closest allies as interior minister. Mr Nouri had moved quickly after the election to replace all provincial governors (who control elections) and rid the civil service of political appointees. The head of the Revolutionary Guard was also replaced. The first in a queue of political parties – headed by Mr Karbaschi – was legalised.

The president's response was to promote Mr Nouri to vice-president, and this week to replace him with an equally radical successor. Mr Khatami stated clearly before the Karbaschi verdict that he would not be deflected from his programme of creating pluralist and accountable government. He has the support of the overwhelming majority of his people not only at the polls but in the streets – hitherto monopolised by gangs of Islamically correct enforcers.

The hardliners have shown that they fear open confrontation in the streets. Mr Khamenei was forced to release Mr Karbaschi on bail in April at the first sign of riots, and the expectation now is of a face-saving compromise to keep the mayor out of jail. All in all, the discredited elite that arose out of the 1979 revolution looks to have scored another own goal.

Fairweather fisc

The draft budget for 1999 which Dominique Strauss-Kahn, the French finance minister, outlined this week is a fairweather budget.

Basking in the sun of revived economic expansion, he has avoided the sort of spending cuts or tax reform that would provoke the government's left-wing allies, and has been happy to let growth do the job of reducing France's public deficit. He may well get away with it. But if growth falters next year, he will have been shown to be too complacent.

In his plan, to be unveiled in detail in September, Mr Strauss-Kahn aims at cutting the overall public deficit from 3 per cent of gross domestic product this year to 2.3 per cent next year. As far as the central state budget goes, he may hit his targets. Though public spending may overshoot, tax revenue is coming in faster than anticipated this year, and will be not be greatly affected by Mr Strauss-Kahn's tinkering with tax rates for 1999.

His one reform involves removing a part of France's heavy burden of payroll taxation. This should help labour-intensive firms, and thus overall employment. Otherwise, for reasons of coalition politics, value added tax on energy is to go down, and the rate of the country's archaic wealth tax up. This will have little practical affect – France's astute rich have always been able to legally park their assets out of reach – but it has helpful political overtones. As Lionel Jospin said in London last night: "We say yes to market economy, but no to market society."

A bigger doubt hangs over the goal of pushing the social security system – off-budget expenditure that nearly matches the state budget in size – into surplus next year. The system is paying out less in dole money. But health spending is accelerating again and the government's only response seems to be to soak the drug companies once more.

"Some regard this deficit (2.3 per cent) as still too high, but the rhythm of adjustment is among the highest in Europe," said Mr Strauss-Kahn. France can be accused of slackening its fiscal effort, after qualifying for the euro earlier this year. But the charge is blunted by the fact that many other European governments are slackening off even more.

There is less excuse for the government's failure to tackle the broader issue of tax reform. In general, France's tax rates are too high, and the base on which they are levied is too narrow.

France is again leading the controversial campaign for EU tax harmonisation, largely to protect itself from the inadequacies of its own tax system. But the campaign may not succeed. Mr Strauss-Kahn should have used his first budget to make a start on fixing his country's tax system, rather than asking the EU to do it for him.

Costly greenery

Roll out a chart of the southern North Sea, and you will discover that the seabed is covered with black crosses, each representing a ship in its watery grave.

Over the years, these wrecks have become homes for all kinds of marine life. The accuracy of modern navigation systems prevents them from being a hazard to shipping. No sensible person would suggest that billions of dollars should be wasted in removing all these wrecks. So why is there such a fuss about taking away every scrap of the 475 oil platforms now approaching the end of their lives?

Yesterday the countries belonging to the Oslo Paris Conference (Ospar) on the marine environment agreed yet more restrictive rules for disposal. The oil industry has, for some years, agreed that all the smaller platforms should be completely removed – modern equipment and huge lifting barges make this relatively inexpensive.

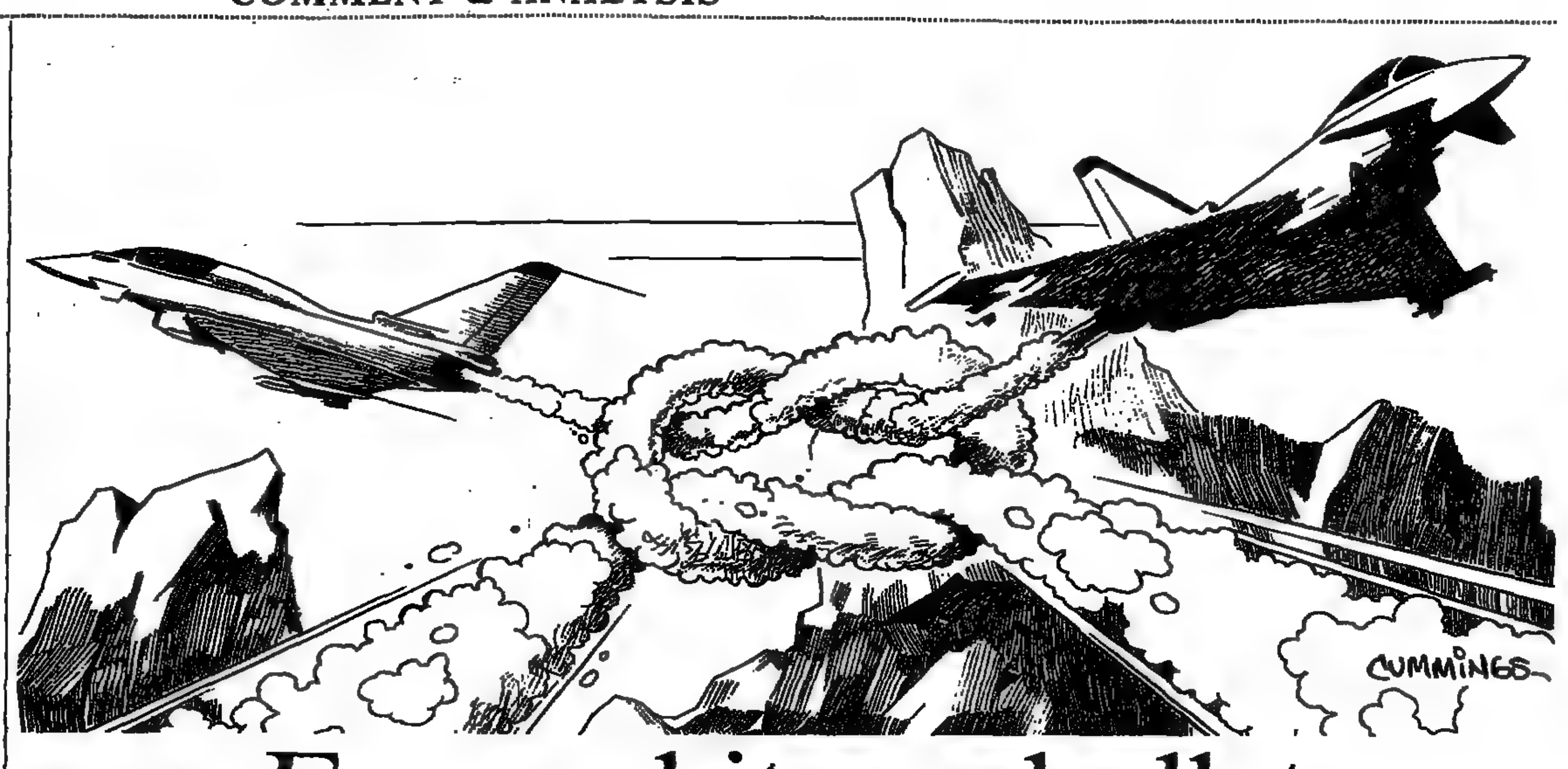
But for the largest deep sea platforms, complete removal would be expensive and involves dangerous work. In some cases, toppling them on their sides, far below the surface, would have been a sensible option. But this was long ago rejected. Even cutting them off 55 metres below the surface is now not good enough. The ministers agreed that even the seabed footings must be brought ashore for all but the 41 largest – those over 10,000 tonnes. Even for these, the bulk of the structure must be removed.

This is Green correctness run wild. Taking away the footings is not even environmentally sound in some cases, where it will stir up pollutants on the seabed. The effect of the tighter rules will be add some £4bn to disposal costs. Under the present tax regime, about a third of this will be met from the public purse.

The ministers also agreed nuclear effluent targets, which seem much lower than is necessary on any reasonable assessment of risk. These will also result in costs far out of proportion to the likely benefit – or to the benefits of spending the money on other things – such as on hospitals and schools.

Unfortunately, most of the countries voting for tighter restrictions do not have to bear the costs, so it is cheap and easy for them to listen to the green lobbyists.

Only the UK and Norway are affected by the ruling on oil platforms and the UK and France by the clean-up of nuclear processing plant. These countries were not able to make an effective enough argument for economic common sense. Of course, pollution must be controlled. But there should be reasonable limits. This accord goes far beyond them.



France bites a bullet

Alexander Nicoll, David Owen and **Robert Graham** look at the implications for European defence of Aerospatiale's privatisation and restructuring

France's decision to privatise Aerospatiale is the most dramatic move so far in the process of creating a pan-European defence industry able to compete with the Leviathans of the US.

Europe's largest aircraft and defence companies are negotiating what would be a three-way merger of unprecedented size and ambition. The idea is that British Aerospace (BAe), Daimler-Benz Aerospace (Dasa) of Germany and the new Aerospatiale will unite to form one of the most powerful companies in Europe, intended to rival Boeing and Lockheed Martin.

Many obstacles stand in the way of this goal. But the biggest has been state control of Aerospatiale.

Last year, the French government agreed to act with Britain and Germany to force through a restructuring of Europe's aerospace and defence companies. The three governments said that, with defence budgets being cut, they wanted better value for money in weapons systems. Only a consolidated European industry could deliver this. If the companies failed to provide one, the governments would have to buy American – and Europe's industry would wither away. Or so went the threat.

In March, the three companies responded by agreeing on the principle of forming a unified group with a single management, quoted on the stock market. The Airbus commercial aircraft business would be a key element of the new company which would integrate military and civil business.

However, the French government's role as owner of sprawling inefficient companies conflicted with its role as customer, demanding value for money. That the French state would have a substantial stake in the proposed united group was unacceptable to BAe and Dasa.

In recent weeks, governments and company chiefs have put tremendous pressure on the French government to allow much greater restructuring. Jürgen Schrempp, Daimler-Benz's chairman, met Dominique Strauss-Kahn, the French finance minister, and impressed upon him the urgency of rationalising the industry across Europe. To French irritation, George Robertson, UK defence secretary, spoke of basing the new European company on the consortium building the Eurofighter aircraft, in which BAe and Dasa are partners but French companies are not.

It is hard to judge the force of threats to exclude France since those putting pressure on the French government know that if they fail to win France's co-operation, the scope for savings from pan-European consolidation would be seriously undermined.

In any case, France did not want to risk being left behind. Its response came much more quickly and was more extensive than anybody expected. On Wednesday, it said it would merge Aerospatiale with the defence interests of Lagardère, the private sector defence and publishing group, and would hold less than a majority in the combined group.

As recently as June 28, when the possibility of a deal with Lagardère began to take shape at a meeting of the two companies, the idea of a merger was a dream. But it took little more than three weeks to establish the political and corporate commitment to the merger under which Lagardère will take 30 to 33 per cent of the combined group, with a further up to 20 per cent floated. Lionel Jospin, prime minister, overcame his reservations at a meeting with Jean-Luc Lagardère, the head of the company, in a TV studio in the first week of July.

A key element influencing the government was mounting pressure from EU partners. French officials conceded that Britain and Germany had become increasingly impatient. They were shocked by an Anglo-German agreement in an entirely different area – the decision by the Frankfurt and London stock exchanges to form a single European platform to trade equities. That deal provided an alarming example of how France might be left out in the cold by its biggest EU partners. The threat of a similar development in defence looked increasingly serious.

France has not, however, been persuaded to cut Aerospatiale loose. The deal ensures the government retains a strong influence because the combined stakes of the public sector and employees will exceed 50 per cent. There will also be a golden share to preserve national defence interests.

This exposes Paris to the charge of continuing to follow a "Franco-French" approach – the very thing it was criticised for last year when it unveiled a restructuring of the Thomson-CSF electronics group including assets of Alcatel, Dassault and Aerospatiale.

Yves Michot, Aerospatiale chairman, sought to distinguish between the two deals, arguing that Aerospatiale and Lagardère were "already very heavily engaged in European partnerships...It is not a Franco-French ensemble that will close in on itself". French officials said it was a necessary transitional phase, permitting bargaining over wider integration.

But uncertainties continue to hang over the project, even though the initial reaction of governments and companies was positive. BAe said the French move was "good news and most encouraging". Manfred Bischoff, Dasa's chief executive, said it represented "significant progress on the path towards integration of aerospace capacities within Europe". Industrialists said the presence of Lagardère executives at Aerospatiale would help the company deal with private-sector partners. "They are people we can do business with," said one British executive.

However, analysts raised three questions about the move. First, would the privatisation be completed in time to stave off deals between European companies – especially a BAe/Dasa link – which would exclude France? The German and British position is that mere promises from Paris are not enough: privatisation has to be completed.

Second, where would Dassault Aviation, which makes Mirage and Rafale fighters, fit into the French reorganisation? True consolidation should involve France's military aircraft industry, but the Dassault family has not indicated it is willing to participate. Aerospatiale has a 46 per cent stake in Dassault.

Third, how far can Lagardère's managers achieve cultural changes in Aerospatiale? The French government will remain by far the largest shareholder and its influence is highly unlikely to be negligible.

What may determine the extent of the change in approach is the degree to which Lagardère executives such as Philippe Camus (the head of the part which will merge with Aerospatiale) are given a say. Until details are finalised, Lagardère could run the risk of plunging its defence assets into something over which it could emerge with little control.

Mr Camus insists Lagardere will "implicate itself as widely as possible in the management of the company". This may be reflected in a top management structure comprising a supervisory board headed by an executive from one of the partners – possibly Mr Michot – and a directorate headed by someone from the other. The presence of Mr Camus may also help to ensure good relations with Airbus, now headed by Noël Forgeard, his former colleague at Lagardère.

For all yesterday's smiles, handshakes and cordiality, however, the difficulties of forging an effective company out of two entities with highly divergent business cultures should not be underestimated. This week's move is an agreement of principle where, as one participant said: "the lawyers have been kept away from the table". Much devil may lie in the detail.

And if the cultural differences involved in the French merger are challenging, how much more so will be the more ambitious venture that Aerospatiale is just a step towards: creating a European defence company by welding the new French grouping to British and German companies.

A structure for the pan-European group has still to be agreed. This will be a tricky process as, while gaining the benefits of cross-border rationalisation it must be sure to retain the confidence of its domestic customers: to the ministries of defence, it must be French in France and German in Germany.

Consolidation will not remove the domestic politics which always plays a part in defence procurement. But it should enable the industry to organise itself along much more commercial lines.

As one participant in the negotiations put it: "Decisions based on purely economic grounds will not be taken in this market for quite some time. But they will be more economic."

Daimler-Benz Aerospace

Ownership: Daimler-Benz, soon to be Daimler Chrysler
1997 sales: DM15.28bn ([illegible])
Employees: 43,521

Partner in Airbus and Eurofighter consortia. Interests in other military and civil aircraft, helicopters, space systems, missiles, satellites, electronic systems, aero engines

Aerospatiale (in future form)

Ownership: French state 46-48%, Lagardère 30-33%, private shareholders up to 20%, employees [illegible]
1997 sales: FFr77bn (£7.7bn) pro forma
Employees: 58,000

Partner in Airbus consortium. Interests in other commercial aircraft, helicopters, missiles, satellites, electronic systems, space systems. Holds 46% of Dassault, maker of Rafale and Mirage fighters, and civil aircraft

British Aerospace

Ownership: private shareholders
1997 sales: £8.5bn
Employees: 43,400

Partner in Airbus and Eurofighter consortia. Interests in other military aircraft, regional aircraft, missiles, electronic systems, munitions, business parks

OBSERVER

Rookies run rule over banks

Masaharu Hino has a lot on his plate. The head of the Financial Supervisory Agency, Japan's new financial watchdog, has just a couple of months to give Japan's top 19 banks a thorough going-over.

It'll be the first real independent regulatory look into the banks' books. The banking bureau of the finance ministry, which used to look after them, wasn't much use. It turned out that the banks were looking after ministry officials, entertaining them on a lavish scale.

Enter the FSA and Hino. He's a public prosecutor by training who, like most of his staff, was chosen partly for his lack of ties to the finance ministry and the banking industry. A clean image is much more important than financial experience for the agency's credibility after the scandals that engulfed the ministry.

The FSA began its probe of the big banks last week, and is supposed to complete it by the end of September, when it goes on to deal with the smaller fry. The FSA can fine banks or even close them – an awesome responsibility in such a fragile and troubled industry.

But most of the 165 inspectors among the agency's 400 staff – even the five certified accountants who were the FSA's star recruits – have no experience in bank inspection.

So it's good to know that a serious training push is under way. But as they move into the complex thickets of the country's biggest banks, it's hardly reassuring that the most popular course is called "financial inspection for beginners".

Match point

France's World Cup victory may be helping to transform the country in more ways than anyone suspected.

Executives close to this week's agreement to merge state-owned planes and rockets outfit Aerospatiale with the defence interests of Lagardère have suggested that the euphoria generated by the boys in *bleu* may have helped to speed the deal along.

The first discussions on the subject between the two sides, took place on June 28, the day France met Paraguay. Any tensions in the conference room were as nothing to those on the pitch – France won 1-0, with a "golden goal" in extra time.

Corporate *rapprochement* hadn't quite reached the stage where the two sides could watch the game together. One executive admits that his side watched it during a "post-meeting assessment".

Grave Digger

Opting for US citizenship had plenty of upsides for Rupert Murdoch, the richest Aussie of them all. Now comes the downside – he and Anna, his wife of 31 years, could be heading for one of the biggest divorce settlements of all time, played out under the watchful eye of News Corporation shareholders.

Which makes the continuing below-stairs revelations from their former butler Philip Townsend rather timely. In the latest edition of the British magazine Punch, he reflects on Anna's constant efforts to drag her husband away from his global board game for a spot of rest and relaxation. But his eyes glazed over at the sight of Greek antiquities and Anna constantly battled to get him to classical concerts: he didn't "hold with all this cultural stuff".

Apparently the couple went off one night to a Sky Television production of Carmen. Murdoch thought it was the musical Camelot and, when Anna set the record straight, retorted: "So what? It's all the same to me." Bizet's opera could prove a breeze, compared with the possible Murdoch drama to come.

Eunuchs enough

The rowdy debate in India's parliament over reserving seats for women has seen the country's *hijras* – eunuchs – jumping on the bandwagon. There are thousands in India's most backward states where they are considered to have semi-magic powers.

There has even been a rally in Patna, in India's north-eastern state of Bihar, to back their demand for 20 per cent of the seats in state assemblies. Echoing a common refrain in modern Indian politics, they say it's the only way to enfranchise and uplift their downtrodden community.

states.

No one's giving them much chance of success, though one suspects that Laloo Prasad Yadav, the wily Bihar opposition leader who opposes reserved places for women, will be happy if they carry on trying.

Indians planning weddings might also be grateful if the *hijras* concentrate on politics. It might divert them from turning up at almost every wedding in the country where they threaten to gatecrash and display their private parts – a guarantee of bad luck – unless they're paid to go away.

Chipped mug

Computer Associates is continuing to sponsor the Dilbert cartoon strip in the Wall Street Journal, labelled "high-tech laugh of the week". Observer thought that, having ignored the Asian crisis until Wednesday, Computer Associates was the high-tech laugh of the week.

Sun strike

Italy's 200,000-strong beach workers' union is unhappy with a new tourism bill. So next Friday there's a protest strike – they aren't going to issue any beach umbrellas. Calamine lotion futures should be worth a punt.

The Financial Times

50 years ago

Malaya Communists Banned
The U.K. Government has agreed with the local Government in Malaya to ban the Malayan Communist Party and its three satellite bodies. The Commissioner-General in Malaya has said that he is satisfied that the party has been mainly responsible for planning, arranging and carrying out the present violent attack on the Government and the campaign of murder, and is the mainspring in the present disturbances. Mr. Creech Jones, Colonial Secretary, made clear in the House of Commons yesterday that the U.K. Government had no desire to "suppress political opinion," but added that there could be "no place in an ordered society for bodies which seek to attain their ends by murder of innocent people."

Italian Unions May Split
One of the effects of the recent disorders in Italy has been that the disagreements between Communist and Christian Democrat trade unionists have now come out into the open and may result in a split. The Christian Democrats say they cannot remain in an organisation which has made itself responsible for open revolt against the Government.

brother PRINTERS FAX MACHINES

FINANCIAL TIMES

FRIDAY JULY 24 1998

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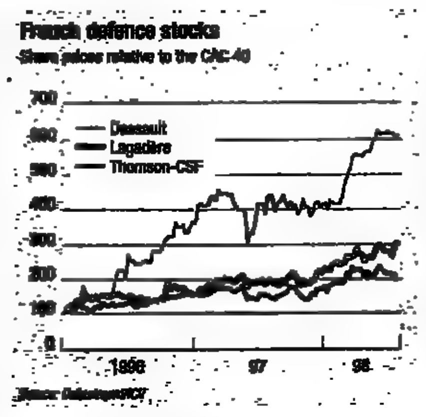
THE LEX COLUMN

France lowers defences



Is this privatisation or nationalisation? Lagardère's exchange of its defence assets for a 30-33 per cent stake in Aerospatiale has elements of both. But what is clear is French panic at the prospect of being left out of Anglo-German defence co-operation. British Aerospace and Dasa are more advanced in their talks than the French would like. Hence promises to float a further 20 per cent of Aerospatiale next year to erode concerns about merging with a company answerable to politicians, not shareholders.

Since state ownership of France's defence industry has long been the stumbling block to a pan-European defence company, the Lagardère/Aerospatiale deal is an important step. But there is a way to go. With the French state set to hold over 40 per cent of Aerospatiale – as it does of Thomson-CSF – doubts will linger over whether politics may impede rationalisation. Cost-cutting is, after all, the whole point.

If this is not resolved, Aerospatiale's value at flotation will be diminished, to the disadvantage of French taxpayers and Lagardère shareholders. While roughly British Aerospace's equal in terms of sales, Aerospatiale will be valued at a considerable discount because of its dismal profitability. Nonetheless, with its stakes in Dassault, Thomson-CSF and now the valuable Lagardère assets, it is an increasingly attractive merger partner.

It will be even more so when fully privatised.

Boeing

It is fasten your seatbelt time again at Boeing, which has not missed an air-pocket since production difficulties first surfaced last summer. Since then, the aircraft maker has also suffered from falling prices, problems with new models and order cancellations by Asian airlines. Yesterday's fresh bad news, which knocked the shares down over 10 per cent, was that recovery will take far longer than was foreseen.

For the first time in its history, Boeing feels guilty enough to try to guide airsick investors by projecting its profits – and the figures make ugly reading. It predicts net earnings of $1bn this year and $2bn in 1999. Analysts had expected around $1.6bn and $3.2bn respectively. This shortfall comes despite a solid contribution from the defence division and the remedial action already taken.

The grain of good news is that Boeing will accelerate cost cutting and start paying attention to its bloated working capital. It has also set clear, public targets for margins, stock turn and costs against which it expects to be measured. Less satisfactory is a new executive incentive scheme. Linking the awards to the share price is sound. But the hurdle – 10 per cent annual growth in the stock price over 5 years – is hardly demanding, particularly given the bombed-out shares. If captain Phil Condit does not manage that, he should grab his parachute and head for the exit.

Linklaters & Alliance

On the face of it, the logic is impeccable: an integrated European law firm to snaffle up the promised largesse of corporate restructuring and fund-raising in Euroland. Linklaters brings the international dimension and London's financial savvy, its European partners contact books thick with companies slowly waking to the joys of market capitalism.

That, of course, is the aim. What has been announced falls some way short of that. France, Spain and Italy are still large gaps in the new alliance. Moreover, making the transition to a single, integrated entity will involve much heartache. Law firms are not known for lightly relinquishing their sovereignty. Finally, Linklaters' European strategy has lagged that of some of its UK competitors. The new alliance looks more a case of catch-up than leapfrog.

The acid test, of course, will be whether L&A, as a single unit, can generate new business more effectively than its rivals. It stands a decent chance: clients will welcome the simplicity of dealing only with one firm, yet getting a uniform pan-European service. Delivering this will require strong leadership and the setting aside of parochial concerns.

At the same time, the challenge will be to lift the subdued profitability of the continental firms towards UK levels. These are all tall challenges: the best reason for hope is that the alliance cannot afford to fail.

ICI

Is ICI's daring transformation from bulk chemicals giant into speciality chemicals darling already unravelling? After yesterday's profits warning, a dose of scepticism has rightly crept in. Market sentiment has not been helped by ICI's investor relations bungle last month, when some analysts downgraded forecasts following private briefings. The market may have hoped for too much too soon. But the company should take the blame for not managing expectations better.

Much of yesterday's bad news was predictable. The Asian crisis is hitting sales in the region. Sterling's strength has taken its toll, and a delay in sloughing off bulk chemicals is pushing up ICI's interest bill. None of this detracts from the rationale of moving into less cyclical and higher margin speciality chemicals. Indeed, the profits growth in these businesses is encouraging, although the market may soften. Rivals such as IFF are starting to feel the pinch, again from Asia, and why should ICI buck the trend?

This aside, two things threaten to blow ICI off course. A struggle to sell its remaining commodity chemicals would keep the balance sheet uncomfortably stretched. The prospect of a quick sale cannot have been helped by the bad trading news. Another risk is that ICI fails to improve its coatings business but still hangs on to it, thereby diluting the benefits of speciality chemicals.

A truly transformed ICI would consider a demerger.

Moody's considering a cut to Japanese rating

By Paul Abrahams and Michiyo Nakamoto in Tokyo

Moody's, the US credit rating agency, yesterday said it was considering downgrading securities issued or backed by the Japanese government.

A decision to take away Japan's Aaa status, the highest status awarded by the agency, would deliver a blow to the nation's prestige. It would make Japan, the world's largest creditor, the only member of the Group of Seven leading industrialised nations not to have an Aaa rating.

Although the US company's move will not necessarily result in a cut, it does begin a formal review process, and comes at a critical moment for Japan – it is suffering from its worst recession in more than 50 years, and is effectively leaderless.

The ruling Liberal Democratic Party will today choose a new party president and prime minister to replace Ryutaro Hashimoto. He decided early last week to stand down after the LDP's poor showing in upper house elections. Moody's announcement triggered a fall in equity markets across Asia. The yen dropped from Y140 against the dollar to Y141.85 in late Tokyo trading, while the benchmark Nikkei 225 average tumbled 105 points, or 0.6 per cent, to 16,155. In Hong Kong, the Hang Seng average slid 2.9 per cent, while in Thailand the SET index declined 3.6 per cent.

The US rating agency's decision brought a sharp response from the Japanese authorities. Hikaru Matsunaga, finance minister, said he could not understand the reasons for Moody's possible downgrade. "Japan has a vast amount of foreign assets, enormous foreign reserves. Japan's fundamentals are firm, and this is merely a temporary economic downturn," he said.

Moody's said its move had been prompted by the disarray among Japanese policy-makers in deciding a medium-term strategy to deal with the deep structural problems afflicting the economy. Another problem was that Japan's fiscal deficit - unlike those of most other highly rated nations - was likely to deteriorate. All three candidates in the leadership contest have pledged to increase government spending to boost the beleaguered economy. Finally, there was a danger that Japanese residents might take advantage of the Big Bang reforms to shift funds suddenly into foreign assets.

The LDP's disarray was evident yesterday when a number of members of parliament threatened to leave the party if Keizo Obuchi won the party leadership.

Mr Obuchi, foreign minister, appears to be the front-runner in the contest against Seiroku Kajiyama, a former chief cabinet secretary, and Junichiro Koizumi, health minister.

Many are worried that if Mr Obuchi, who is the least popular of the three candidates with the public, becomes the next prime minister, they could lose their seats in the next lower house elections scheduled for 2000.

Debt markets unsurprised by Moody's move, Page 4
Observer, Page 15

Hardliners sentence Tehran's reformist mayor to five years

By David Gardner, Middle East Editor

Gholamhossein Karbaschi, the popular mayor of Tehran, was yesterday sentenced to five years in jail on charges of embezzlement.

His politically charged, six-week trial, watched on television by vast audiences, has been widely interpreted as an attempt by Islamist hardliners to clip the wings of reformists around President Mohammad Khatami.

Mr Karbaschi, who holds cabinet rank, was also banned from holding government office for 20 years and fined 1bn rials ($330,000); a further punishment of 60 lashes was suspended because of what the court called his "social standing".

The mayor is the latest in a line of prominent allies of the president to be targeted by Islamist conservatives who, under Supreme Leader Ayatollah Ali Khamenei, control important power centres, such as the judiciary and the Revolutionary Guard, but are still reeling from Mr Khatami's landslide election victory in May last year.

Last month, the *Majlis* (parliament), where hardliners have a slim majority, voted to impeach Abdollah Nouri, President Khatami's interior minister, who had threatened the conservative establishment by seizing key levers of power.

Mr Nouri replaced all provincial governors – who superintend elections – and cleaned out the higher echelons of the civil service of factional appointees. He also permitted opposition rallies and had started legalising political parties, the first of which is headed by Mr Karbaschi.

Mr Khatami responded robustly, promoting Mr Nouri to vice-president and, this week, replacing him with Abdolvahed Moussavi-Lari, who pledged to continue the reforms. Before yesterday's verdict, officials close to the president said he would replace Mr Karbaschi with an equally radical figure and would rely on the overwhelming popular support for his programme of social and political liberalisation.

Mr Khatami won 70 per cent of the popular vote last year, with Mr Karbaschi operating as his campaign strategist. One of the charges against the mayor was that he used revenue from municipal taxes to help finance the president's stunning victory against the candidate endorsed by Mr Khamenei.

Mr Karbaschi is revered in Tehran for transforming the capital from an ill-planned and choked concrete jungle into a city full of parks and cultural centres, with a new freeway system, less pollution and better public transport.

Mr Karbaschi, 45, has 20 days to appeal against yesterday's verdict. His supporters believe the hardliners will not risk confrontation in the streets by sending him to jail and will reach a compromise with the Khatami camp. In April Mr Khamenei was forced to release the mayor on bail after clashes in the street.

The verdict, which has added the halo of martyrdom to Mr Karbaschi's reputation, appears not to ban him from political activism or from running for the *Majlis* at the next elections in 2000.

Editorial Comment, Page 15

CONTENTS

Residents struggle through floodwater after heavy rains in central and east China caused rivers and lakes to overflow Picture: Reuters

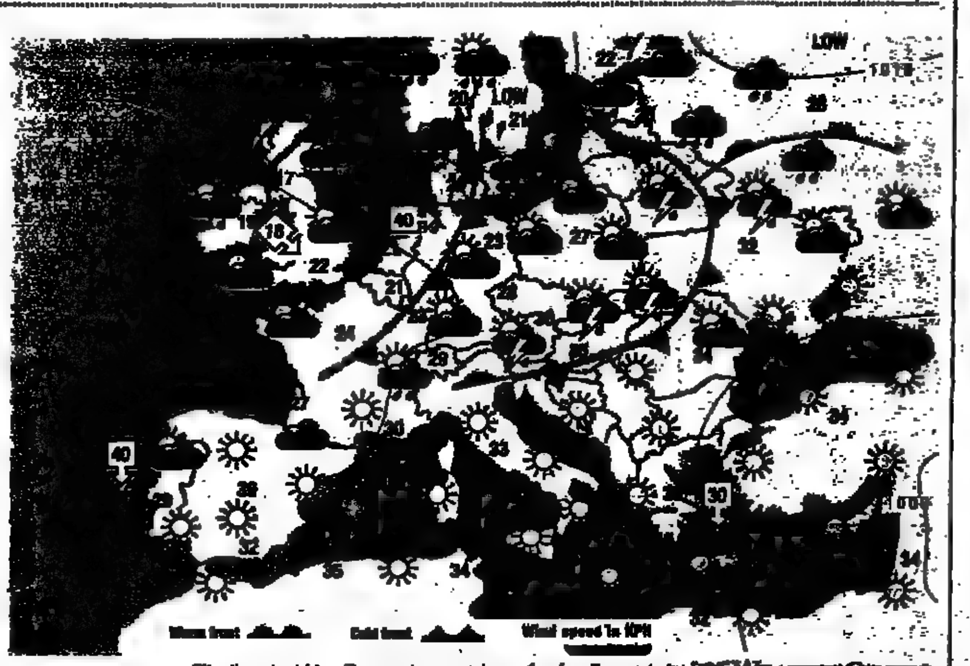
FT WEATHER GUIDE

Europe today

Low pressure over Scandinavia will continue to bring rain and heavy showers to much of Norway and Sweden and to northern parts of Finland. South and west Finland will be mainly dry. Denmark will be breezy, but will become drier with sunny spells. A series of weak fronts will bring showers and sunny spells to central and eastern Europe, with some of these turning heavy and thundery over the Austrian Alps. Western Europe will be mainly fine as high pressure builds over the region. The Mediterranean will continue sunny and hot.

Five-day forecast

Scandinavia will be unsettled with rain. Central and eastern Europe will have sunshine and showers. Elsewhere, it will be fine and mainly sunny.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	42
Accra	Fair	28
Algiers	Sun	39
Amsterdam	Fair	21
Athens	Sun	36
Atlanta	Thunder	35
B. Aires	Thunder	16
B.ham	Fair	20
Bangkok	Thunder	33
Barcelona	Sun	31
Beijing	Shower	30
Belfast	Shower	17
Belgrade	Sun	35
Berlin	Fair	23
Bermuda	Fair	31
Bogota	Thunder	16
Bombay	Thunder	32
Brussels	Fair	21
Budapest	Fair	35
C.hagen	Shower	21
Cairo	Sun	37
Caracas	Fair	32
Cardiff	Fair	19
Casablanca	Sun	27
Chicago	Fair	24
Cologne	Fair	23
Dakar	Fair	30
Dallas	Thunder	38
Delhi	Fair	30
Dubai	Sun	45
Dublin	Fair	19
Dubrovnik	Sun	32
Edinburgh	Fair	18
Faro	Sun	31
Frankfurt	Fair	25
Geneva	Fair	22
Gibraltar	Sun	30
Glasgow	Shower	17
Hamburg	Shower	20
Helsinki	Cloudy	22
Hong Kong	Fair	32
Honolulu	Fair	31
Istanbul	Sun	32
Jakarta	Fair	32
Jersey	Fair	20
Johannesb'g	Shower	20
Karachi	Cloudy	37
Kuwait	Sun	43
L. Angeles	Sun	24
Las Palmas	Fair	26
Lima	Fair	21
Lisbon	Sun	29
London	Fair	22
Luxbourg	Fair	23
Lyon	Fair	29
Madeira	Sun	27
Madrid	Sun	39
Majorca	Sun	33
Malta	Sun	33
Manchester	Shower	18
Manila	Thunder	33
Melbourne	Fair	14
Mexico City	Thunder	30
Miami	Fair	33
Milan	Sun	35
Montreal	Shower	23
Moscow	Rain	28
Munich	Shower	27
Nairobi	Fair	24
Naples	Sun	35
Nassau	Thunder	33
New York	Fair	30
Nice	Sun	30
Nicosia	Sun	32
Oslo	Rain	20
Paris	Fair	24
Perth	Fair	19
Prague	Fair	25
Rangoon	Shower	32
Reykjavik	Shower	13
Rio	Cloudy	25
Rome	Sun	33
S. Frsco	Fair	22
Seoul	Fair	30
Singapore	Shower	31
Stockholm	Rain	21
Strasbourg	Fair	27
Sydney	Shower	16
Tangier	Sun	31
Tel Aviv	Sun	34
Tokyo	Shower	27
Toronto	Fair	25
Vancouver	Sun	25
Venice	Sun	34
Vienna	Shower	30
Warsaw	Fair	27
Washington	Fair	32
Wellington	Shower	12
Winnipeg	Sun	24
Zurich	Fair	35

هكذا من الأصل

RICHARD DONKIN

Reward for knowhow

Knowledge management systems could soon be used to measure performance

How long will it be before employees are rewarded or recognised not on the basis of output or productivity but according to what they know and how often their knowledge is tapped by colleagues and customers?

The question arises from a report from the Centre for Research in Employment and Technology in Europe (Create) in conjunction with Focus Central London. The report, called *Good Practices in Knowledge Creation and Exchange*, explores some of the avenues discussed in last week's column but also outlines the different stages of a typical knowledge management initiative.

The stepped progression starts with the installation of an intranet or company-wide software system providing the technical basis for knowledge sharing. The next stage is to compile a "Yellow Pages" list of in-house experts or knowledge co-ordinators who can provide helpline services and whose expertise is advertised via personal web sites.

This can stimulate electronic contracts but a system of knowledge transfer can also be aided by the provision of physical meeting places such as coffee bars or rest areas. Many employees can remember such places. They used to be called the pub or the café. They went there without any management coaxing and developed their own informal networks.

In the new electronically enhanced, workerless, managerless environments the ability to communicate appears to have disappeared.

So today we find that knowledge must be "managed". One further step on the ladder, according to the Create report, involves building a personal recognition system based on the number of "hits" per site and using the system to influence decisions over promotion and reward.

Does this mean some people will be crowing about their lengthening lists of e-mails as if they are badges of performance? Apparently so. Something on these lines is already operating at Scandia, the Swedish insurance company, according to the report.

Such arrangements mean that companies are on the threshold of creating in-house gurus. This may be a good thing. Experts have always been around but their value has sometimes been eclipsed by those who sought aggrandisement through administrative or management roles.

What seems increasingly clear is that knowledge management is interpreted differently by different companies. As ever, the most appealing processes are those that can visibly influence the bottom line.

One example mentioned by Create is a system used by British Petroleum where 500 top engineers have been organised into teams which are on hand to consult over problems. A specific problem in the North Sea, say, can be filmed and the picture transmitted through video conferencing to the experts wherever they may be.

But why does knowledge need to be managed? Why can't it simply be allowed to flourish?

The report's authors write of a final stage consisting of "internal knowledge markets" driven by the notions of recognition, reciprocity and trust. These are fine words. But the big problem for many employees is that their companies have been sorely lacking in such qualities. How many companies continue to view knowledge as something for them to exploit but not something for them to impart freely among their employees?

Good Practices in Knowledge Creation and Exchange, by Amin Rajan, Elizabeth Lank and Kirsty Chapple, is published by Create, £49.50, tel +44 1892 526757. Focus Central London is developing a knowledge management network. Details on the same number.

***

The latest quarterly statistics showing advertised demand for executives, published by MSL Search and Selection, the recruitment consultancy, suggest that the UK economy is slowing down.

The overall decrease in demand for senior executives is down slightly on the same period last year. But the apparent slowdown becomes more noticeable when activity is compared with the 35 per cent increase in recruitment between the second quarters of 1996 and 1997.

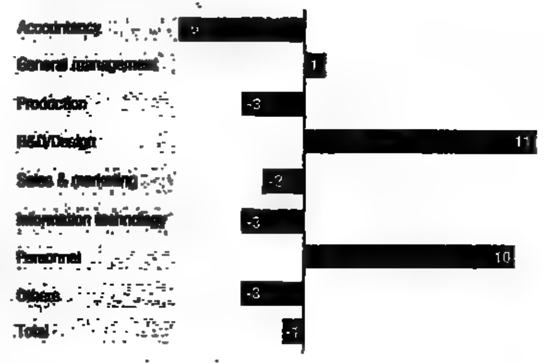
Most job categories record decreases in comparison with the second quarter last year, although vacancies in research and development and personnel increased by 11 per cent and 10 per cent respectively.

Accountancy/finance, production, information technology, and sales and marketing all registered decreases following peaks in demand recorded in the first quarter of this year. All of the industry sectors recorded decreases in the second quarter of 1998, compared with the same period last year, except retail, which increased by 20 per cent, reaching an all-time high.

MSL recruitment index

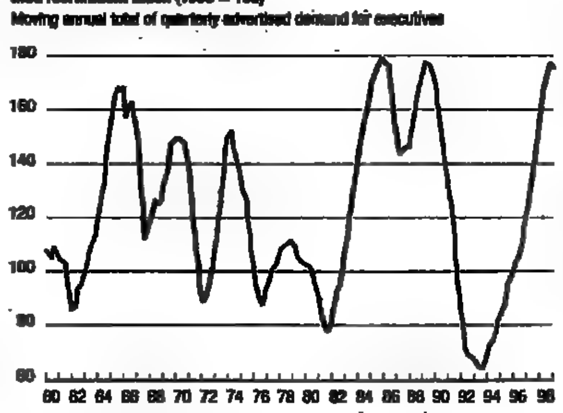
By job category

% change Q2 '98 on Q2 '97



MSL recruitment index (1980 = 100)

Moving annual total of quarterly advertised demand for executives



Source: MSL Search and Selection

WORKING BRIEFS

Actuaries and their incomes are getting more exciting

A top general insurance actuary in the UK can earn more than £150,000 ($247,000) a year, according to a survey carried out by GAAPS, a specialist actuarial recruitment consultancy.

A big majority of actuaries, earn more modest salaries, says Geraldine Kaye, GAAPS managing director, though experienced, fully qualified actuaries are attracting higher pay packages.

The average for a qualified actuary with three to four years' post-qualification experience is £83,000 compared with £59,000 last year, an increase of 41 per cent. This might have been the last word on actuaries had Ms Kaye not ventured the observation that "people used to say that actuaries found accountants exciting. Not any more". For good measure she added: "Actuaries like people to be dead on time."

Tel + 44 171 437 8899

Short on staff

More evidence, if any were needed, that many companies are suffering from chronic staff shortages has emerged in a survey of human resources professionals.

The study, carried out for Cyborg Systems, HR software producers, was drawn from 115 interviews with personnel managers in medium to large UK companies.

Growing skills shortages were identified as the biggest problem facing managers. Some 41 per cent of the respondents said it was their greatest concern. Among the IT respondents the figure rose to 90 per cent.

The survey showed middle managers were more likely to suffer stress than senior managers but most employers (58 per cent) were offering no help in dealing with stress among employees.

Andreina Porter, tel + 44 1689 827011

Trustee courses

Newly appointed pension fund trustees uncertain of their responsibilities may be interested in a series of workshops and courses for trustees run by Watson Wyatt Partners, actuaries and consultants. The workshops range from introductory training, covering the legal position of trustees and investment issues, to refresher courses and more advanced training for experienced trustees. Courses are running from mid-September to the end of November.

Sarah George, tel + 44 1737 241144

BANKING FINANCE & GENERAL APPOINTMENTS

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FINANCIAL TIMES FRIDAY JULY 24 1998 ★ III

CREDIT SUISSE | Financial Products

DERIVATIVES MODELLING

LONDON AND TOKYO — £ EXCEPTIONAL

Credit Suisse Financial Products is one of the world's largest derivatives houses providing a full range of structured derivatives and risk management tools. Designed to address the broad financing risk management and investment needs of its clients it operates with state-of-the-art controls and has received many awards which reflect its leading positions in the derivatives market.

Expansion of the Derivatives Product Development Group has resulted in the creation of outstanding opportunities in London and Tokyo for exceptional individuals.

The group develops mathematical models for the valuation and hedging of the state-of-the-art options and other derivative products in all areas of finance including foreign exchange, fixed income, equities and commodities as well as credit and emerging market derivatives. Based on the trading floor, the group is immersed in a highly interactive environment and ideally placed to respond effectively to the needs of the trading floor and contribute to the genesis of financial products.

Successful applicants will carry out all mathematical derivations necessary to assign the instrument a value and develop the C/C++ implementation of the calculation for the SUN/UNIX and PC/NT based environments used on the trading floor. Occasionally, brief trips to other offices worldwide will be necessary. The ideal candidates will have:

- a post graduate degree in a highly mathematical field (Applied Mathematics, Engineering, Physics or Computer Science) ideally to doctorate level
- demonstrable advanced mathematical modelling skills together with scientific programming experience
- excellent communication skills
- bilingual skills in Japanese and English for the Tokyo position, with preference being given to Japanese nationals
- prior experience in the financial sector is not required.

Total compensation will reflect the Bank's desire to recruit only individuals of the highest calibre. If you are interested in the opportunity to join a market leader in derivatives modelling with an outstanding reputation for the quality of its risk management products, please send a letter of application and Curriculum Vitae to Jamie Lovatt at Robert Walters Associates, 10 Bedford Street, London WC2E 9HE. Tel: 0171 379 3333. Fax: 0171 915 8714 or Matthew Maslin at Robert Walters Associates, 21st Floor Jardine House, One Connaught Place, Central Hong Kong. Tel: + 852 2525 7808, Fax: + 852 2525 7768

E-mail: jamie.lovatt@robertwalters.com

E-mail: matthew.maslin@robertwalters.com

Web: http://www.robertwalters.com

You may also apply via http://tmpa.com/Robert_Walters quoting reference RW129.

ROBERT WALTERS ASSOCIATES

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WASSERSTEIN PERELLA & CO. LIMITED

Highly competitive remuneration — London

Founded in 1988, Wasserstein Perella is a privately held international M&A advisory, corporate finance and merchant banking firm specialising in high level strategic and financial advice. The firm, which operates on a global basis, is seeking to expand its European operations which are based in London

Corporate Finance Associates

As part of the expansion of its European M&A business, Wasserstein Perella is seeking to recruit a small number of Associates.

Associates at Wasserstein Perella are responsible for all aspects of analysis and presentations relating to mergers, acquisitions, restructuring, divestitures, leveraged buyouts and general corporate financial advice. They are expected to participate in structuring and negotiating M&A transactions and to play a significant role in the Firm's new business origination.

High calibre candidates are sought with the necessary drive, ambition, confidence and skill base to succeed in this stimulating environment. The successful candidates will be able to demonstrate some or all of the following:-

- 3-5 years relevant work experience within another leading investment bank.
- Recent ACA with post-qualification experience.
- MBA from a leading business school.

A highly competitive salary commensurate with experience is offered together with a performance related bonus.

Reply (in strict confidence) in writing only, with CV and current salary details to Charlotte Knight

Euromarkets Sales Trader

As a result of its successful sales and trading activities in the US, Wasserstein Perella's securities division (Grantchester) is now establishing a European presence. An exciting start-up position in securities broking has arisen within the firm.

The role involves daily contact with both clients and market-makers in all types of euromarket product, with special emphasis on high yield bonds and other credit products. The successful candidate will be able to demonstrate:-

- A degree and minimum 3 years experience in eurobond sales, trading or broking.
- Established relationships with eurobond market makers and/or portfolio managers.
- Exposure to high yield bond and other credit markets, and/or illiquid bond products.
- Excellent numeracy, PC, verbal, communication and analytical skills.

Corporate Credit Analyst

The firm is also seeking to recruit a credit analyst to support its European corporate bond broking business. The role involves both quantitative analysis and qualitative assessment of European corporate credits, in close co-operation with the research team in New York, combined with extensive client contact.

The successful candidate will be able to demonstrate:-

- A degree or equivalent qualification, along with technical competence in financial analysis.
- At least 2 years experience in either equity or fixed income research, or a related field of analysis.
- Excellent numeracy and PC skills.
- Superior analytical skills with a capacity for independent, creative thought, allied with an ability to articulate and present ideas to both clients and colleagues in a clear and confident manner.

Reporting to the European Managing Director, these roles represent exceptional ground floor opportunities for highly motivated individuals. Salary will be commensurate with experience, with substantial performance related bonus.

Reply (in strict confidence) in writing only, with CV and current salary details to Stuart Johnston

Wasserstein Perella & Co. Limited, 3 Burlington Gardens, London, W1X 1LE (Regulated by the SFA)

WASSERSTEIN PERELLA & CO

PPMVENTURES

Private Equity

PPM Ventures is a leading provider of private equity finance, with offices in London, Hong Kong and Sydney. The team manages substantial funds, and specialises in leading medium and large buyouts and institutional purchases. Global expansion and staff redeployment have created a number of opportunities for professionals within the London team.

The Roles

The successful candidates will be expected to participate fully in all aspects of the investment process. This will include:

- identifying and appraising investment opportunities
- negotiating and completing transactions

The Individuals

Candidates will be highly motivated and able to demonstrate:

- high degree of numeracy
- excellent analytical skills
- strong communication skills
- between two and five years experience in one of the following:
  - private equity
  - acquisition/mezzanine finance
  - lead advisory

The Rewards

- attractive compensation package including private equity benefits
- excellent career opportunities in a highly successful business operating at the forefront of its market

PPM Ventures – Backing business

We are an equal opportunity employer

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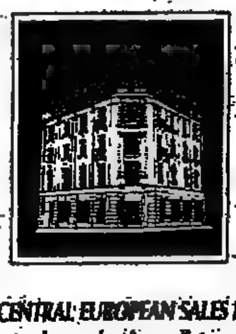
Anthony Jones
Career Plan Limited
33 John's Mews
London WC1N 2NS
Tel: 0171 242 5775
Fax: 0171 831 7623

IMI is a leading Italian Investment Bank, looking to develop and strengthen activities in the fixed income sector.



Our CENTRAL EUROPEAN SALES DESK, based in Luxembourg, has immediate openings for:

A SENIOR INSTITUTIONAL FIXED INCOME SALES (m/f)

You have a sound academic background, preferably in economics or mathematics; three to five years experience in marketing fixed income products, notably government bonds, derivatives and structured products, to institutional investors in Europe (except Italy). You speak fluent English and at least one other of the following languages: French, German, Spanish, Dutch. You have an analytical mind, good technical/IT skills, excellent communication skills combined with an open mind, team spirit and the ambition to work in a highly competitive environment. The remuneration package will be very competitive, reflecting your experience and including salary, benefits and performance-related bonus.

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You have an excellent academic background and ideally have one or two years experience in selling fixed income products - eurobonds and government bonds. You speak fluent English and at least one other of the following languages: French, German, Italian, Dutch. Experience with relevant business-related IT/software is a definite advantage. You are a highly motivated, ambitious and a flexible team player. A long term career opportunity in a highly competitive environment is your challenge.

Interested candidates should address their letters and CVs to:

IMI BANK (LUX) S.A.
PERSONNEL DEPARTMENT
8, AVENUE DE LA LIBERTE L-1930 LUXEMBOURG

OPTIVER

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This is an outstanding opportunity for a forward thinking, ambitious, young person with a desire to join the securities industry.

Optiver is one of the largest options traders in Amsterdam. The company is also active in the U.S., Frankfurt, Sydney and London.

We are currently looking for highly motivated individuals to join the fast growing London operation.

The Role

- Trainee Equity Options Market Maker
- You will be based in London

You Will

- Be a graduate with strong analytical skills
- Be able to display a high level of numeracy
- Be computer literate

Please send full CV Box 6198, Financial Times, One Southwark Bridge, London SE1 9HL

Senior Process Consultant

Our client, one of the world's leading accountancy practices, wishes to recruit a Senior Process Consultant to provide business process consultancy to clients operating primarily within the manufacturing, retail and distribution sector.

You will have a strong financial background - a CIMA or equivalent - with strong analytical skills and have recent experience operating at a senior level (head of department or possibly number two) within a 'benchmark leading edge' industry with a heavy supply chain management requirement. You will be able to demonstrate proven expertise in the latest techniques for analysing/benchmarking financial processes within a manufacturing environment and have a strong understanding of supply chain management and related information flows. Prior consultancy experience desirable.

This newly created role, whilst enjoying the support of a large organisation, will require you to work on your own initiative. You will have a nose for business opportunities, with a taste for an occasional IT or HR problem. You will be strong on delivery and be able to interact with diverse groups, building mutual trust in order to create new opportunities.

Operating primarily out of the firm's Glasgow office, you will have responsibility for servicing clients of the firm's other Scottish offices.

This outstanding opportunity provides not only immediate challenge, but a clear pathway to an outstanding career with a blue chip organisation.

To be considered for the above position please forward a comprehensive CV to: Donald McCorquodale or Ken Craig, Andersen Ellis, 53 Bothwell Street, Glasgow G2 6TS, Tel: 0141 564 8882, Fax: 0141-564 8881, e-mail: recruit@andersenellis.com

AndersenEllis
FINANCIAL RECRUITMENT

FLEMINGS

nvestment Banking Executives

Corporate Finance in sub-Saharan frica

Flemings is a leading international investment banking and asset management group operating in 42 countries around the world.

Our corporate finance business is global and is driven by creative ideas and strong execution. Last year, we advised firms on a range of transactions with a combined value of £14.5 billion, including 32 cross-border deals. Our capital markets operation, a leading player in emerging markets, raised £13 billion in new equity and equity-linked capital.

We have a strong presence in sub-Saharan Africa through offices in South Africa, Zimbabwe, Botswana, Nambia, Ghana and Malawi. Our corporate finance and capital markets operations there have also been involved in a number of significant transactions last year.

We are now seeking to recruit additional Executives specialising in sub-Saharan Africa. The successful applicant will initially be based in London and Johannesburg with a view to relocating permanently to Africa. The ideal candidate will be a graduate with business experience within the African markets.

Please apply in writing stating current remuneration details to Pauline Sweeney, Personnel Officer, Robert Fleming & Co Limited, 25 Copthall Avenue, London EC2R 7DR by 5th August 1998.

MANAGEMENT TRAINEE

High profile and dynamic private company seeks an individual, aged 23-35, to be trained by Senior Manager with a view to replace him! Suite those looking for a career with responsibility and earnings commensurate with that position. Contact:

ROSS GLANFIELD
0171 576 7789

ANALYST

International bank require an analyst with extensive experience of Eastern Europe to join its corporate research area in London.

The successful candidate will have a minimum of 2 years experience gained from within the banking sector in Russia: proven analytical skills and will be able to demonstrate an in depth knowledge of the Eastern European banking industry. A good first degree and MBA from a leading European business school are essential as are advanced computer skills and fluency in English and Russian.

Please reply sending a covering letter stating your current remuneration and current c.v. to Box A6199, Financial Times, One Southwark Bridge, London SE1 9HL.

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Appointments Advertising

appears in the UK edition every Wednesday & Thursday and in the International edition every Friday.

For information on advertising in this section please call

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Financial Times

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c £75k plus Executive Package plus Full Relocation & Substantial Bonus

This highly acquisitive and fast growing multi million turnover organisation, with plans for expansion throughout Europe and beyond is going places rapidly, and is offering an opportunity for an equally ambitious accountant to become one of the driving forces to bring these plans to fruition.

Working closely with the Chief Executive in this highly strategic role, you will be a catalyst for maximising business opportunity. Your ability to conduct business in both French and English will allow you to work closely with operational management as well as reviewing management information. Evaluating and making recommendations to augment profitability you will be influential in driving the business forward.

The management of potential mergers, acquisitions, flotations and your ability to regularly review, analyse and design effective corporate capital structures will be paramount.

This demanding, high profile role offers a CCAB qualified professional the opportunity to give their strong financial and commercial acumen full rein. Articulate and polished, you will have a personal presence and positive image allowing confident and effective communication with professionals within and outside the organisation. Flexible, creative and resilient with a proactive approach you will need a head for heights as you benefit from the opportunities within this fast moving international company.

Interviews will be held in London on the 5, 6 and 7 August 1998.

To apply, please send your CV in confidence to Tracy Webb, Senior Consultant or Clive Thomas, Director at Cooper Lomax Recruitment (Central) Limited, Ground Floor, Blackfriars House, 379 South Row, Witan Gate East, Central Milton Keynes, MK9 2PN. Telephone: 01908 545400. Fax: 01908 545454. Email: recruit@cooperlomax.co.uk Internet: http://www.cooperlomax.co.uk

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ARGENT

TOP "SCORER" REQUIRED

Argent Group PLC is one of the UK's leading property developers and is involved in schemes worth in excess of £500 million.

Due to staff progression, we have a vacancy for an accountant to lead the small Piccadilly based finance function reporting to the Finance Director but working as a member of the team of 26 employees.

Responsibilities will include:

- Day to day management of the finance function to ensure the production of timely and accurate information
- Preparation of quarterly management and annual statutory accounts
- Provision of project cost and budget data to in-house project managers
- Treasury and liaison with project funders
- Ad hoc project related work

The successful applicant will be an enthusiastic, positive individual, preferably with exposure to property development and definitely strongly computer literate. Neither age nor qualification will be a barrier but candidates must demonstrate initiative and confidence and be willing to participate fully in a diverse range of activities.

A competitive package will be offered. Please send your CV, not to exceed two pages, together with details of your current remuneration to:

Jane Tambor
Argent Group PLC
5 Albany Courtyard
Piccadilly
London
W1V 9RB

NO AGENCIES PLEASE

WORLD COM ADVANCED NETWORKS

Finance Director, Europe

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Reporting to the Managing Director, Europe, this newly created role will provide the opportunity to make a significant contribution to a rapidly growing business.

Responsibilities will include:

- Responsibility for day to day management and development of the European Finance Function encompassing continual review and improvement of efficiencies
- Reporting to the Group Financial Controller in Ohio, USA, take full responsibility for all aspects of financial control ensuring prompt and accurate financial and budgetary reporting
- Develop financial systems ensuring they can support sustained growth and development
- Develop effective working relationships with senior management across the region in order to optimise the quality and range of financial and commercial information
- Ensure that the commercial strategy is comprehensively supported by sound financial strategy in accordance with overall corporate objectives
- Working closely with the MD on all aspects of business strategy including potential acquisitions ensuring all commercial developments are given rigorous financial appraisal.

Essential attributes will include energy, enthusiasm and initiative as well as the ability to thrive in a dynamic multinational organization. You will be experienced in the development and management of financial control systems and though not a prerequisite, this experience is likely to have been gained within the hi-tech sector. Possessing excellent communication skills, you will be a qualified accountant with the ability to manage broad business issues and operate successfully at the highest level within a multicultural environment.

This is an outstanding opportunity for an ambitious and talented individual to join an exceptional organisation that will offer excellent career progression.

Please apply, enclosing full CV and remuneration details to Samantha Camp or Kate Tojeiro at Jones Christopher. Please quote KT4009 on all correspondence. Any CVs sent directly to WorldCom Advanced Networks will be forwarded to Jones Christopher.

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FINANCIAL RECRUITMENT CONSULTANTS

Jones Christopher Limited, 4th Floor, Linen Hall, 162-168 Regent Street, London W1R 5TB.
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HEAD OF FINANCE

PUBLISHING — **South West London**

c £50,000 + Car + attractive Bonus and Pension

PJB Publications Ltd is a successful, well established publisher of news and information on international pharmaceutical and healthcare markets. The company's headquarters are in Richmond upon Thames, Surrey, with operations in the USA and Japan. The business is privately owned and makes a healthy profit.

The Head of Finance is responsible to the Executive Chairman for all operational aspects of the Finance Department. This includes maintaining proper accounting records, systems and controls as well as preparing budgets and monthly management and annual statutory accounts. Working with the General Management providing an efficient and effective service, you will be a key member of the senior management team, contributing to the development of the business through financial management information systems and controls.

We are looking for someone with solid experience of all aspects of the finance function. Essential qualities are the ability to manage people effectively and the willingness to take a hands-on approach to the activities of the Finance Department.

Skills and qualifications required:

- Graduate and fully qualified accountant
- Minimum of 5 years post qualification experience
- Able to demonstrate a strong successful operational track record
- Energetic, resilient and articulate
- Able to communicate effectively with non-financial managers and editorial staff

Interested applicants should apply in writing enclosing a full CV and details of current remuneration package to:

Vicky Brown, PJB Publications Ltd, 18/20 Hill Rise, Richmond, Surrey, TW10 6UA. Closing date for applications Friday 7th August 1998. Interviews will be held during August.

PJB PUBLICATIONS LTD

RETAIL FINANCE MANAGER

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Our client, a household name, is a large and profitable retailer with a clear vision of its future. Turnover and profitability have increased significantly within the space of a few years and further expansion and changes are planned.

You will be joining a young and dynamic team who have already raised service levels within the business and made a significant contribution to improving company performance.

Reporting to the Head of Finance, you will be responsible for introducing new systems and working practices that improve accountancy procedures and result in a more effective financial service. Key tasks include reducing the accountancy timetable, delivering accurate results and improving efficiency across this important department.

You should be a qualified accountant - probably ACA, with a degree and ideally possess 5 years post-qualification experience gained with a major high street retailer or trader. Experience of rigorous financial controls, stocks, cash, retail accounting and EPOS will be very familiar to you. As well as sound technical skills you will be determined and have strong man management skills enabling you to drive through projects and improve ways of working. In addition your ambition and enthusiasm will supplement first class communication skills, professionalism and integrity.

This is an important opportunity in a fast moving challenging sector and there is excellent long term career potential.

To apply please send your CV and remuneration details in confidence, quoting reference 7080, to Stuart Adamson FCA or Phillip Johns BSc MIPD at Adamson & Partners Limited, 10 Lisbon Square, Leeds LS1 4LY. Fax number 0113 242 0802.

e-mail: stuartadamson@adamson.com

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Take full responsibility for financial reporting and control. Provide strong, hands on, proactive, commercial input at both strategic and operational levels. Lead the ongoing development of all management information systems. Develop close relationships with advisors, bankers and shareholders.

QUALIFICATIONS

Qualified accountant, probably aged 28 to 35, with a proven track record of achievement in a service sector environment. Commercial acumen, intellectual ability and stature to operate at Board level. Successful systems development experience. First class interpersonal skills. Energetic, innovative, hands-on.

Please send a full Curriculum Vitae to Robinson Keane, Denzell House, Dunham Road, Bowdon, Cheshire, WA14 4QE quoting Reference RK 2044. Telephone 0161 929 9105.

Robinson Keane
SEARCH & SELECTION

SITA

Audit Co-ordinator

Paris, France — **Negotiable salary + benefits**

SITA is the world's leading provider of telecommunications and information solutions to the air transport industry. Serving more than 650 customers in 225 countries via the world's largest, most advanced voice and data network, SITA's 1997 revenues exceeded US$1 billion. Based in Paris and reporting to the Director of Accounting, the Audit Co-ordinator will take responsibility for the integrity of data, and best practice in auditing worldwide. A strong performance in this role will lead to opportunities for career development within the group.

The role

- devise routines to analyse the effectiveness and accuracy of SITA's accountancy procedures worldwide
- recommend and facilitate changes as appropriate to ensure compliance with best accounting practice
- perform follow-up missions to overseas departments, ensuring complete implementation of changes
- liaise with Internal and External Auditors.

The person

- graduate qualified Chartered Accountant (any country); at least 5 years' pqe within the accounting department of a large company or audit firm
- knowledge of USGAAP
- fluent English; working knowledge of French advantageous
- willing to travel worldwide
- enthusiastic team worker, able to communicate confidently at all levels
- proactive, tenacious and results-oriented.

Please write enclosing cv, addressing each of the above points and outlining current remuneration, to Yolande Leroy-Evans, Ref: SI25/YLE/FT, Executive Search and Selection, PA Consulting Group, 123 Buckingham Palace Road, London SW1W 9SR. Tel: 0171-730 9000. Fax: 0171-333 5330.

Global Recruitment

PA Consulting Group

West Yorkshire

c.£50,000, car, bonus, benefits

Market leading subsidiary of an expanding and acquisitive top 250 PLC seeks talented young finance professional to lead, manage, and develop central finance team. Key role in provision of service and support to business with operations across the UK.

THE ROLE

- Report to the Finance Director and be responsible for a team covering financial accounting, statutory reporting, payroll and credit control.
- Provide leadership to central accounting team and take practical approach to strengthening and developing the accounting service provided to the business units.
- Manage budgeting, planning and forecasting in accordance with group and company policy, procedures and timescales.

THE QUALIFICATIONS

- Customer focused, energetic and decisive individual with excellent and relationship building ability together with high level of intellect, resilience and interpersonal skills.
- Stature and integrity to contribute to the development of a strong finance function and with obvious ability to progress beyond this role.
- Graduate, qualified accountant with excellent record of professional and academic achievement together with a high level of familiarity with information technology. Technically excellent and comfortable with PLC reporting requirements.

To apply, please write with a full CV, details of current salary and quoting ref. 10180 to Tracey Pullan at BHM Nevard Roland, Corson House, The Beechwoods Estate, Elmete Lane, Roundhay, Leeds, LS8 2LQ. Telephone 0113 218 8000. Fax 0113 218 8020. E-mail: [illegible]

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FINANCIAL PLANNING MANAGER

Granada Business Technology

Bedford

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The Company

Our client is a rapidly expanding market leader in hotel and leisure technology, supplying and supporting products and systems to a diverse international customer base. They are an autonomous subsidiary of Granada Group Plc whose principal activities as a FTSE 100 listed organisation are within the media, hospitality and rental sectors.

The Role

To strengthen the business management team a crucial new appointment has been created to assume full responsibility for the commercial planning environment. Reporting to the Finance Director you will become an integral part of a small dynamic management team in a progressive company. The key objectives of this role are to provide a framework to support management information requirements and to identify and implement best practice relating to the evaluation of business performance.

- To prepare and review business plans and where necessary assist colleagues in revising their plans to maximise profits
- Perform the necessary level of analysis providing the management team with a clear view of business performance
- Contribute to the commercial decision making process
- Critically evaluate costs and business processes to ensure they are effective, efficient and that the service provided to the customer is optimised
- Establish a framework of key performance indicators that support the strategic objectives of the organisation, monitor progress against these measurements and advise management of actions that should be taken as a result of such analysis

The Appointee

This unique commercial opportunity will suit a graduate qualified CCAB accountant who possesses an analytical approach combined with an inquisitive and innovative nature. Effective communication and presentation skills are essential to liaise with all levels of staff including senior management and the Board Directors. Exposure to the formulation of business strategy and involvement with business improvement initiatives is required. You will thrive in a fast changing environment, leading and motivating a team and maximising your ability to persuade and influence people.

To apply please send your CV and current salary details to Hays Accountancy Personnel, Greyfriars Chambers, Greyfriars, Bedford MK40 1HJ. Tel: 01234 214614. Fax: 01234 214630.

Hays — Hays Accountancy Personnel

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The Appointee

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Monsanto earnings held back by acquisitions and spending

The acquisition programme being pursued by Monsanto, and sharply increased spending on new products, continued to hold back its short-term earnings growth. The US life sciences group saw "significantly increased" sales of agricultural products. But earnings were held back by a $200m increase in "growth" spending. Page 21

ICICI plans push into retail services

Industrial Credit and Investment Corporation, India's second biggest financial institution, plans a big push into retail financial services, which could complete the transformation of the project finance lender into a universal bank. Page 20

Indonesian shares give back gains

Indonesia's stock market continued to give back some of the recent 20 per cent gains. Although the rally has partly been supported by signs that President B.J. Habibie has consolidated his hold on power and obtained support from the International Monetary Fund, traders attribute the market's rise to speculative buying and external factors rather than signs of a real economic recovery. Page 36

Diamond miners turn to Mauritania

Diamond miners are finding fresh prospects in Mauritania. Whereas most kimberlite deposits – from where the big diamond mines recover the gems – are buried by up to 60 metres of sand, many in Mauritania are on the surface. Page 26

Technology reduces property costs

Commercial property market customers are achieving profitability by matching accommodation provision to core business needs. Lower rent is less important as new technologies and improved connectivity contribute to reducing occupancy costs. Property Column, Page 20

Defence shake-up helps Paris stocks

Pan-European equity indices were pushed lower by Japanese credit worries and poor earnings reports from leading companies. But a big shake-up in the French defence sector boosted stock prices in Paris, which helped to keep index losses relatively modest. Page 23

Copper talks may have resumed

Talks are thought to have resumed between some of the parties over the aborted sale of Zambia's two most important copper mines. Page 25

Futures exchange faces challenger

Malaysia's futures exchange is likely to lose business when Singapore introduces a futures contract based on the performance of shares traded on the Kuala Lumpur Stock Exchange. Page 24

COMPANIES IN THIS ISSUE

CROSSWORD, Page 26

MARKET STATISTICS

Oil groups seal $1bn asset swap

Shell deal with Occidental may herald similar accords

By Robert Corzine in London

Royal Dutch/Shell, the Anglo-Dutch oil group, and Occidental of the US yesterday completed a $1bn global asset swap, the biggest such transaction yet seen in the international oil industry.

The competitive swap arrangement – organised along the lines of a cash auction but with bids made in assets instead – could herald a wave of similar deals, according to bankers. Big oil companies are seeking new ways to adjust their asset portfolios at a time when asset sales for cash have been depressed by low crude prices.

In a complex deal covering four countries, Shell agreed to transfer to Occidental its onshore oil assets in Colombia and all its oil holdings in Yemen. The Los Angeles-based group already has a stake in the main assets being traded in both countries; the Cano Limon field in Colombia and Yemen's Masila Block.

In exchange Shell will take over Occidental's natural gas reserves in the Philippines and Malaysia, in which it too has existing stakes. The deal will give Shell 100 per cent of the offshore SC-38 concession in the Philippines, which includes the Camago/Malampaya gas discoveries, which are the subject of a $2bn Shell-operated development. Output from the fields will supply onshore power plants.

In Malaysia Shell will assume Occidental's 37.5 per cent stake in the SK8 block, the gas from which is to be used in the country's third liquefied natural gas project (MLNG Tiga) in which Shell has a 10 per cent stake. Shell will also take over Occidental's 10 per cent holding in that project.

"Basically Shell has traded current oil production in mature areas for long-term gas reserves in Asia," said a banker involved in the transaction.

Phil Watts, Shell's managing director, described the deal as "a bold move towards a more active management of Shell's global portfolio".

That suggests that Shell is likely to consider more such deals, say its advisers, especially as the company, which still has a multi-billion dollar cash hoard, does not need additional cash.

The swap also suggests that Shell is starting to focus on areas where it sees long-term growth potential, and in which it can build a business that is large enough to be material to such a big company.

Occidental, which last year bought the Elk Hills Naval Petroleum Reserve in California for $3.65bn in the biggest ever sale of US government property, has been keen to reduce its debt.

Dresdner Kleinwort Benson, which advised Shell on the deal, said the competitive asset auction was completed within six months. That is seen as speedy in the oil industry, where exclusive swaps can often take a year or more to complete.

Lasmo set to sell Colombian assets, Page 22

BMW net profits rise but shares fall 6% on Rover fears

By Graham Bowley in Frankfurt

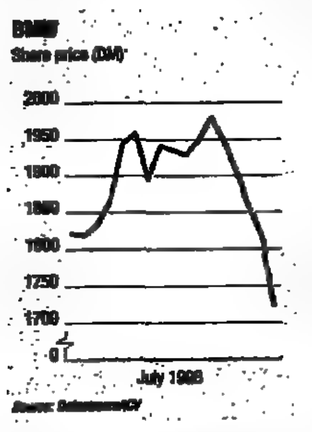
BMW, the German luxury carmaker, yesterday reported a rise in net profits of 17 per cent to DM511m ($287m) in the first half of this year, but its shares fell over fears about the health of Rover, its UK subsidiary.

The strong results – in line with market expectations – underlined the continued healthy growth at the German parent group. Total group sales rose 6.3 per cent to DM31bn in the first six months.

But BMW shares fell yesterday by more than 6 per cent, tumbling DM115 to close at DM1,705. This reflected a general decline in automotive stocks in Germany, but there were also concerns that Rover's problems went beyond the strength of the pound.

BMW vowed that despite the damaging effect on Rover of the strength of sterling, profits, sales and production in the BMW group as a whole this year would exceed last year's record levels. Last year, BMW made net profit of DM1.25bn, a rise of 52 per cent, and had sales of DM60.1bn. Car output rose 4 per cent to 1.2m units.

The German group said the pound's strength was undermining Rover's competitiveness, wiping hundreds of millions of pounds off annual revenues because its cars were around 30 per cent more



expensive than non-UK-based rivals. "Our competitors have a 30-40 per cent leeway on their pricing," a Rover spokesman said.

Despite the pound's strength, BMW said the number of Rover cars being exported from the UK rose 6 per cent to around 143,000 in the first six months, when the company was hedged against currency movements.

BMW vowed to take measures to shore up Rover, which it bought in 1994 but which is still lossmaking. It said it would cut 1,500 jobs from Rover's 40,000 UK workforce, introduce a four-day week at its Birmingham and Oxford plants, and use more overseas supplies to cut costs.

BMW officials conceded earlier this year that they did not expect to make a profit at Rover at least until 2000.

BMW suffered another blow last month when it lost out in the battle to buy Rolls-Royce Motor Cars. After a protracted bidding battle, the UK luxury carmaker was sold to rival German car company Volkswagen, dealing a setback to BMW's ambitions to expand quickly in the top end of the luxury car market.

However, BMW elsewhere is prospering. Its "3-series" car model, launched this year, has proved popular.

Rover's rough ride, Page 7

Liffe assurance: New Liffe chairman Brian Williamson aims to convert the exchange from an 'institution into a business' — Picture: Colin Beere

Liffe chief signals sweeping review

By Edward Luce in London

Brian Williamson, the new chairman of the London International Financial Futures and Options Exchange, yesterday said he would complete a sweeping review of the exchange's strategy by the end of September. He said radical change, possibly including a stock exchange listing, was likely.

Mr Williamson, who was appointed the exchange's first full-time chairman last Tuesday, said the review would aim at converting Liffe from an "institution into a business".

It would focus on the views of the exchange's 15 to 20 largest clients, including the big investment banks, such as Salomon Smith Barney and Goldman Sachs, and the leading brokerage houses.

"Without the market we are nothing," Mr Williamson said. "Liffe exists to serve the market and if we don't do what the market wants us to do then we are dead."

Mr Williamson, who steps down as chairman of Gerrard, the money market trading house, in the next few days, said he did not intend the review to be "disruptive" but conceded that "radical change" was a likelihood.

The review comes six weeks after Liffe's 215 members voted by a 98 per cent majority to implement a series of unprecedented reforms.

These reforms, which included the introduction of day-time electronic trading and the conversion of Liffe into a profit-seeking company, were prompted by the unexpectedly fierce challenge from the Deutsche Terminbörse, Liffe's Frankfurt-based rival, over the last 12 months.

Mr Williamson said the era of reform at Liffe was only half complete. The process could eventually result in a flotation, he said. "Liffe is a business and it should at the very least act as if it were a listed company," he added.

Mr Williamson would not comment on a suggestion made earlier this week by Rolf Breuer, the Deutsche Börse chairman, that Liffe and DTB should pursue a tie-up.

"The most important people to consult are in the markets," he said. "The heads of other exchanges come very low down on my list of priorities."

On electronic trading, Mr Williamson said he would look at whether it was feasible to introduce Liffe's new daytime screen-trading system before mid-1999 when it was scheduled to be made available for all contracts.

US exchanges to merge, Page 24

Hitachi Asia seeks to raise $800m

By Khozem Merchant in Tokyo

Hitachi Asia, the Singapore-based arm of the Japanese electronics group, plans to raise US$800m in a corporate bond issue aimed at European and Asian investors.

The move reflects the credit crunch in Japan which is forcing companies to bypass troubled local banks in favour of the domestic bond market in their search for funds.

Details of Hitachi's proposed issue, such as the terms and the lead broker, have not been finalised, but the company said the bulk of the placement would be with European investors and the rest with Asian investors.

This is the first time that Hitachi Asia, which oversees the group's south-east Asian operations, has sought to tap investors via a corporate bond issued outside of Japan.

Hitachi Asia said it would issue medium-term notes with maturities of less than 10 years. "The fund would be used as working capital," it said.

The company said the credit crunch in Japan was one factor behind its decision. "We also want to keep flexible in terms of our [source of] funding. The current low yields from bond markets makes the capital market less expensive as a means of raising finance than borrowing from banks."

Analysts in Tokyo said the company's initiative was an attempt to "kick start its medium-term notes programme".

Many Japanese companies are attempting to diversify their sources of borrowing away from the troubled banking sector in Tokyo, which lies at the heart of the country's economic woes.

"Corporates have to widen their funding source. They can't rely on one or two house banks. Hitachi's move is part of this trend," said Stefan Huber, director of origination and structural finance at HSBC in Tokyo.

Japanese companies' increasing appeal to domestic capital markets is paralleled by a steep fall in bank lending to companies. This fell in the March quarter by Y2,000bn ($14bn) as banks raised their capital adequacy ratios and tried to remove problem loans from their books. Total corporate bond issues in Japan in the financial year to March are forecast to top last year's record Y8,800bn.

Blow for Caracas as aluminium sell-off collapses

By Raymond Colitt in Caracas

The Venezuelan government's privatisation programme suffered a blow yesterday when the sale of its aluminium complex fell through for the second time in four months amid chaotic scenes at the auction site.

Hundreds of public officials and investors gathered to witness what was expected to be the formal presentation of a $1.55bn bid by a consortium made up of Billiton of the UK, Kaiser Aluminum of the US and a local aluminium processor for the Venezuelan Aluminium Corporation. They were stunned when the consortium failed to turn up.

Instead a group of casually-dressed VAC workers burst out of the audience to present the authorities with a bid of $1.6bn, claiming the financial backing of Equity Management Partners, an investment bank.

But the government privatisation agency, FIV, said the workers had not qualified to bid and refused to consider their offer. In the confusion that followed, VAC officials and workers representatives traded insults before the meeting broke up.

Billiton said in a statement issued in London that its consortium – the only qualified bidder – had been "unable to complete the necessary consortium arrangements in advance of the deadline for submission of a bid".

Alberto Poletto, head of the FIV, said: "They informed us of their decision only minutes before the official tender. They apparently could not agree on the share each partner would have in the venture."

The collapse of the bidding comes as the government is battling against a serious financial crisis brought about by a shortfall in oil revenue and political uncertainty.

Failure of the privatisation could affect VAC's ability to meet its supply contracts, according to some observers. At least two production lines with a 60,000 tonne a year output in one smelter are on the verge of collapse, said Martin Schöffel, head of the aluminium processors' association in Caracas.

With a capacity of 630,000 tonnes per year, VAC accounts for roughly 4 per cent of world production and boasts some of the industry's lowest energy and mineral costs.

A previous sale attempt failed in March after three international consortia withdrew successively, citing rising labour costs, a high base price ($2.1bn) and uncertainty over contractual terms.

While Mr Poletto admitted a setback, he refused to accept responsibility for the repeated failures.

But Alfredo Rivas, the president of VAC, admitted that the initial contractual terms in March had been too optimistic.

He said the drop in world aluminium prices also influenced the privatisation negatively.

Under financial pressure to sell the indebted, and loss-making company the government had lowered the base price and revised some of the contract terms.

FINANCIAL TIMES FRIDAY JULY 24 1998

CONSUMER ELECTRONICS EROSION IN PRICES FOR DUTCH GROUP'S PRODUCTS FAILS TO HALT EARNINGS GROWTH

Philips up 36.2% despite Asia downturn

By Gordon Cramb in Amsterdam

Philips, Europe's largest consumer electronics group, yesterday produced a further earnings improvement in spite of deepening economic woes in Asia and further erosion in prices for its products.

Price erosion in the first half grew to 8 per cent, from 6 per cent in the same period of 1997. However, net profits from ordinary operations were 36.2 per cent higher at Fl 1.57bn ($778m) as the Dutch group lifted revenues 7.1 per cent to Fl 35.76bn.

Sales in the five worst affected south-east Asian countries were down by one-quarter in guilder terms, and across the region growth decelerated in the latest three months. Interim operating profits from Asia-Pacific fell 18.1 per cent to Fl 515m.

Including a slide into loss at PolyGram, the entertainment subsidiary being sold to Seagram of Canada, income from all operations slipped 7.7 per cent to Fl 1.84bn.

PolyGram was consolidated in the figures only for the first five months, while costs of the $10.4bn Seagram deal are to be charged only on completion.

Jan Hommen, finance director, said yesterday this was expected in the fourth quarter.

Mr Hommen said proceeds from the sale of Philips' 75 per cent stake could be used in various ways, including share buy-backs or acquisitions to plug holes in its portfolio.

He said he would, however, view with caution any proposed purchase of more than Fl 1bn aimed at adding an entire sector to operations.

He also ruled out any grander initiative which would change the nature of the company, such as a merger with a competitor. "Forget it. We are not really interested in these types of things," he said.

Recent speculation has included a possible joining of forces with a similar-sized foreign group such as Motorola, which might give Philips the market power it still lacks in mobile phones.

Mr Hommen said the group's market share of nearly 7 per cent, including fixed-wire handsets, had to grow "by a number of percentage points" before the consumer communications division became profitable.

Losses on phones of about Fl 250m in the first quarter had been reduced in the latest three months, he added. But the unit, put last year into a joint venture with Lucent of the US, was largely responsible for a collapse in operating profits across all its consumer product activities.

These stood at just Fl 7m for the six months, against a year-earlier figure, adjusted for disposals and currency movements, of Fl 214m.

Price erosion was felt in telephony, monitor screens and semiconductors. Philips this week signalled price cuts in order to increase its position in 16-bit integrated circuits for use in electronics products.

It is benefiting from plants running close to capacity, and has been stalling a decision on its next fabrication site for silicon wafers.

Former UBS chief to lead ING Barings

By Clay Harris, Banking Correspondent


David Robins: announcement ends speculation over his future

ING Barings, the Dutch-owned investment bank, yesterday named David Robins, former head of Union Bank of Switzerland in the UK, as its new chief executive.

Malcolm Le May, former head of European investment banking at UBS, where he was Mr Robins' deputy, is to become Barings' global head of corporate and institutional finance.

The high-profile appointments mark an effort to stem a recent crisis of confidence at Barings, which ING Group bought in 1995 after the collapse caused by Nick Leeson's trading.

The announcement also ends speculation over the future of Mr Robins, who was European chief operating officer for UBS before its merger with Swiss Bank Corporation, but did not join the SBC-dominated Warburg Dillon Read subsidiary.

At ING Barings, Mr Robins replaces Arjun Mathrani, who resigned in May after only five months in the job, following a clash over the bank's European strategy. ING Barings has also been hit by a string of high-level defections in recent months.

Yesterday's announcement did not address whether or how the issue over European structure, complicated by ING's acquisition of Banque Bruxelles Lambert, had been resolved.

But Marinus Minderhoud, chairman and acting chief executive of ING Barings, and a member of the parent company's board, said Mr Robins had a "full mandate to further develop and strengthen our global corporate and investment banking business". ING also owns Furman Selz, the US investment bank.

Another hint that the new team has been given a firmer grip on the reins came in the emphasis on the "global" nature of Mr Le May's role in corporate finance. His global counterpart in equities is Jeremy Palmer, who will retain the corporate finance portfolio until Mr Le May arrives.

"It's a great challenge," Mr Robins said yesterday. "ING is a tremendously strong operation. It is generating great profits in retail banking and insurance, and investment banking needs to be built up into something equally as strong." He is due to begin work on October 1.

As co-head of European corporate finance at WDR, Mr Le May was one of the few senior ex-UBS investment bankers to stay after the SBC merger, which took effect last month. Robert Gillespie takes over full responsibility for European corporate finance at WDR.

ABB rises 13% but warns of fall in orders

By William Hall in Zurich

ABB, the international electrical engineering conglomerate, yesterday reported a 13 per cent rise in net income, to $638m, but warned that it could no longer count on order growth in the rest of the world to offset the downturn in Asia.

The profits improvement was attributed primarily to lower interest charges and taxes – operating earnings after depreciation were unchanged at $1.05bn.

In local currency terms, earnings rose 5 per cent, revenues were unchanged at $14.5bn, operating margins rose from 6.9 per cent to 7.2 per cent, and return on capital employed climbed from 17.8 per cent to 19.1 per cent.

ABB's profits were in line with analysts' expectations, but the shares slipped SFr29 to SFr2,268 after the group disclosed that its first-half order intake fell 5 per cent to $14.5bn.

Allowing for disposals and acquisitions, order volume was 3 per cent higher, but the figures were weaker than many analysts had expected, given the strong first-quarter order intake.

Göran Lindhal, who took over as ABB chief executive at the start of 1997, wants to boost ABB's annual revenues from the mid-$30bn level to $50bn by 2001. However, yesterday's results confirmed analysts' concerns that ABB is having more success cutting costs than boosting its revenue base.

In the first quarter, ABB noted that growth in emerging markets, especially the Middle East and Latin America, more than compensated for lower demand in Asia. However, ABB's Asian revenues fell 20 per cent in the first half, to $2.1bn. ABB says higher demand in other parts of the world will only help to compensate for lower demand in Asia.

ABB's performance in Asia, where it employs more than 30,000, will be seen as a barometer for the fortunes of other international engineering companies active in the region. Increased political uncertainties and financial turbulence have hit demand, and contracts are taking longer to finalise.

ABB had been building up its low-cost Asian manufacturing base to take advantage of increased export opportunities. But the company said that increased export demand is not yet compensating for the downturn in local infrastructure projects.

Despite the gloomy order outlook, ABB expects its profits to increase in 1998, helped by a substantial recovery in the earnings of its power generation business. Earnings in power transmission, and industrial and building systems, which together contributed 13 times more profit than power generation in 1997, are also expected to be higher.

However, Adtranz, the rail venture with Daimler-Benz, continued to lose money and is not expected to make a profit until next year.

BBV dismisses merger talk

By Tom Burns in Madrid

Banco Bilbao Vizcaya, Spain's largest banking group by market capitalisation, yesterday quashed market rumours that it planned to merge with the rival Banco Santander or any other domestic institution.

"We have no [merger] operation in mind and none projected, with Santander or with anyone," Emilio Ybarra, chairman, said.

Santander has repeatedly said further banking concentration in Spain is unnecessary. It has also denied in recent days that it was interested in an arrangement with BBV.

BBV lifted its first-half attributable net profits 28.1 per cent to Pta74.3bn ($489m), in line with market forecasts. In its first quarter the group had reported a similar income rise and Mr Ybarra said he expected year-end profits of around Pta150bn.

A 26 per cent increase in net interest income, to Pta334.7bn, fuelled by high margins in the group's Latin American subsidiaries, and a 61.3 per cent increase in fee commissions to Pta150.5bn comfortably offset the cost of the bank's Latin American expansion. Overall operating costs were up 32.8 per cent to Pta280.8bn, and net loan provisioning totalled Pta65.3bn, up 129.3 per cent on the first half of 1997.

Mr Ybarra said BBV would complete its strategic positioning in Latin America in September, with final agreements to purchase controlling stakes in Chile's Banco BHIF and in Brazil's Banco Excel Economico.

BBV had agreed to pay $450m for 55 per cent of Excel Economico, which is ranked fifth in Brazil in terms of loans and eighth in terms of deposits. However, the price is understood to have been considerably reduced following examination of the balance sheet.

BBV will now plough about $860m into the Brazilian bank to cover its recapitalisation and expansion under BBV management, as well as the equity purchase.

In Europe, Mr Ybarra said the situation "remained fluid" pending talks with Italy's regulators on BBV's plans to acquire a stake of up to 10 per cent in Banco Nazionale del Lavoro.

NEWS DIGEST

CHIPMAKING EQUIPMENT

Gloomy forecast sparks 11% fall in ASML share price

Shares in ASM Lithography fell more than 11 per cent yesterday as the Dutch producer of semiconductor manufacturing equipment revealed a thinning order book and added a bleaker note to a profits warning issued last month. The backlog of orders for its wafer steppers – which etch circuit patterns on the silicon wafers from which chips are honed – stood at Fl 1bn ($495m) at the end of June, down from Fl 1.6bn six months earlier.

The company, which competes mainly with Nikon and Canon of Japan, reported first-half net profits of Fl 140m. These compared with Fl 147m in the same period of 1997, which included an extraordinary gain of Fl 31.1m. But only 31 orders were recorded, compared with 135 previously.

Willem Maris, chairman, said that full-year earnings were "expected to be substantially below 1997 levels". Previously he had indicated only that it would not match the Fl 297.9m earned that year, when 211 units were sold.

ASML is freezing operating expenses but maintaining research and development as well as capital spending on new facilities. The shares ended Fl 7.10 lower at Fl 58.50, having staged a partial recovery since the Asian economic downturn prompted the mid-June warning. They have lost 46.7 per cent since their peak last September. **Gordon Cramb, Amsterdam**

DAIMLER/CHRYSLER

Brussels approves merger

The European Commission yesterday cleared the planned $40bn merger of carmakers Daimler-Benz of Germany and Chrysler of the US. Although the companies' activities overlap in some segments of the market, the Commission believes the transaction will have limited impact on competition, because of the strength of rivals.

The combined market share of DaimlerChrysler, as the merged entity will be called, will not exceed 10 per cent in any European Union country. The combined entity will have a higher market share in some sectors, such as executive cars and sports cars, but competition in these segments will remain intense, because of the established presence of rivals such as BMW and General Motors.

Yesterday's clearance follows the launch in the US of Daimler's new Sterling truck brand. The company also said this week its commercial vehicles division raised first-half sales 20 per to DM21bn ($11.7bn). Unit sales climbed 19 per cent to almost 229,000. The company forecast full-year turnover would probably climb to about DM45bn, from DM39bn.
Samer Iskandar, Brussels, Haig Simonian, Cleveland, Ohio

VEHICLE COMPONENTS

Autoliv posts 4% advance

Autoliv, the Swedish-US automotive components group, yesterday reported a 4 per cent increase in second-quarter profits, in spite of severe pricing pressures, lower vehicle output and the impact of the General Motors strike.

The company, one of the world's largest manufacturers of airbags and seat belts, saw pre-tax profits rise from $83.1m to $84.3m on sales of $877.9m, against $849.5m in the same period of 1997. Most analysts had expected flat or slightly lower second-quarter profits. The shares rose SKr8.50 to SKr243 in Stockholm.

Gunnar Bark, chief executive, said sales growth had been held back by the strike at GM, with turnover in airbags slipping from $607.1m to $599.9m. That was offset by a 15 per cent rise in seatbelt turnover, to $278m, reduced material costs and improved productivity.

Weak results in the first quarter, however, contributed to reduced half-year pre-tax profits of $155m, down from $177m, as sales slid from $379.9m to $375.8m.
Tim Burt, Stockholm

BAYERISCHE HYPO-UND VEREINSBANK

Operating result 19.7% up

Bayerische Hypo-und Vereinsbank, the recently merged German banking group, yesterday a reported a 19.7 per cent rise in first-half operating profit after provisions, to DM1.67bn ($933m), and said it expected double-digit growth in operating profit for the full year. The figures, given on a pro-forma basis, include a rise in net interest income from DM4.63bn to DM5.06bn and net commission income up from DM1.4bn to DM1.67bn. The bank said the cost to income ratio improved by 1.7 percentage points, to 57.9 per cent.

Net interest income was boosted by the first-time consolidation of FGH Bank and Norisbank. Banking business contributed DM3bn to net interest income, a rise of 4.1 per cent.
Agencies, Munich

PHARMACEUTICALS

Elan ahead sharply to $59.6m

Elan Corporation, the Ireland-based pharmaceuticals company, lifted net income 49 per cent to $59.6m in the second quarter ended June 30, up from $40.1m in the same period of 1997.

Revenues rose 82 per cent to $158m, with product sales contributing $50m compared with $21.6m. Research revenues reached $21.9m, against $14.5m, while royalty and fee income more than doubled to $58.6m, on the back of several new licensing agreements. Selling and other expenses more than doubled to $33.7m, partly because of increased marketing costs related to US expansion.
John Murray Brown, Dublin

BUILDING MATERIALS

Saint-Gobain static

Saint-Gobain, the French glass and building materials group, yesterday reported static first-half income of FFr3.4bn ($566m). Excluding capital gains, the year-on-year advance was 22 per cent, from FFr2.3bn to FFr2.8bn. The result was achieved on turnover of FFr57.7bn – up from FFr52.8bn.
David Owen, Paris

Telia sells 370 office buildings

By Tim Burt in Stockholm

Telia, the state-owned Swedish telecommunications operator, yesterday unveiled the country's largest real estate disposal by selling 370 commercial properties for SKr5.1bn ($640m).

A consortium of four institutional investors – comprising Bankers Trust and Crown NorthCorp of the US, Deutsche Bank and Swedish insurer SPP – has agreed to an all-cash offer for office buildings at 160 sites.

The deal follows the sale last month of Telia's main property interests in Stockholm to Diligentia, the Swedish real estate group, for SKr1.25bn.

The telecommunications company, which is expected to be partially privatised over the next few years, said proceeds from the transactions would help fund the expansion of its mobile and fixed network services in the Baltic States and Russia.

"We are investing SKr6bn to SKr8bn in new foreign operations, and this deal will support that plan this year," said Per Eric Fylking, director of mergers and acquisitions at Telia.

Telia is investing SKr12bn on increasing its presence in the Nordic countries and Baltic Sea basin. This year, it raised funds by selling its 6.4 per cent stake in Omnitel, the Italian GSM operator, for SKr4.9bn.

Mr Fylking, however, said the disposals were not part of a pre-privatisation restructuring. Nevertheless, several analysts said the property sell-off underlined Telia's restricted options in raising capital for its expansion programme.

"Access to the stock market would certainly help the company's access to capital," said one telecoms analyst in London, who predicted that the Swedish government would consider a partial flotation following September's parliamentary elections.

Under the terms of the latest deal, the consortium will take over the bulk of Telaris, Telia's real estate arm, with 1.2m sq m of rental space and an annual gross rental value of SKr790m.

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BANKING RESTRUCTURING CHARGES TAKE TOLL ON EARNINGS

NAB declines to A$1.57bn

By Russell Baker in Sydney

National Australia Bank, Australia's largest, reported a 4.5 per cent drop in net profit to A$1.57bn (US$975m) in the nine months to June 30 after incurring A$241m of restructuring costs.

Excluding the abnormal costs, earnings rose 5.2 per cent to A$1.73bn, buoyed by a strong third quarter. The abnormal costs were associated with rationalising NAB's distribution network and workforce.

The third-quarter operating profit of A$619m was slightly higher than analysts' forecasts and NAB shares rose 21 cents to A$22.92.

Don Argus, managing director, said the nine-month profit was "a promising result that demonstrated the progress the bank is making on both income stream development and cost management".

There has been much speculation this week that Mr Argus was planning to leave NAB by the end of the year to head BHP, the ailing Australian resources conglomerate. Frank Cicutto, NAB global head of products and services, and Glenn Barnes, head of business and personal services, have been mentioned as likely successors to Mr Argus.

All the bank's main operations reported stronger earnings in the third quarter. Profits in Australia rose 6.5 per cent to A$311m; European earnings jumped 37.8 per cent to A$182m; and profits out of the US more than doubled to A$60m. The translation effect of a weak Australian dollar accounted for the big jump in European and US earnings.

The growth in overseas profits meant that 49.1 per cent of NAB's profits in the quarter were generated overseas. NAB owns Yorkshire Bank, Clydesdale Bank and Northern Bank in the UK, and the National Irish Bank in Ireland. It also owns Michigan National Bank in the US.

The bank increased its charge for doubtful debts to A$202m in the third quarter compared with A$122m a year earlier. "The increased provisioning reflects our view of the current stage of the business cycle in Australia and other economies," Mr Argus said.

NAB said its aggregate exposure to Asia amounted to A$14.8bn at June 30. Gross impaired assets in Asia totalled A$41m, representing a mere 0.3 per cent of shareholders' equity.

The restructuring, announced in April, will see NAB cut between 3,500 and 5,000 jobs – up to 9 per cent of its total workforce. The cuts will come mainly in Australia and Asia. Mr Argus has said the bank expected to recoup most of the restructuring costs within two to three years.

Don Argus: rumoured to be planning a move to BHP Reuters

ICICI aims to complete transformation with push into retail

India's second largest bank plans to offer products such as insurance in alliance with UK's Prudential, reports **Krishna Guha**

Industrial Credit and Investment Corporation (ICICI), India's second biggest financial institution, plans a big push into retail financial services, which could complete the transformation of the project finance lender into a universal bank.

The group yesterday announced it had recruited directors to help lead the push, which is aiming for loans to retail customers to account for 30 per cent of new lending within five years, up from less than 5 per cent of today. It also plans new savings, investment and insurance products, in alliance with Prudential, the UK insurer.

"We are repositioning the group with personal finance as a fundamental part of our strategy going forward," says K. V. Kamath, ICICI managing director. "This will include insurance, asset management, consumer credit, auto finance, housing loans and credit cards."

He says the corporation has set up a Personal Finance Group as one of three core business divisions under restructuring plans drawn up by McKinsey, the management consultants.

Infrastructure projects provide boost to top three lenders

India's three biggest financial institutions yesterday announced higher profits for the three months to June 30, giving some comfort to investors who feared that the country's economic slowdown could put a strain on its banking system, writes Krishna Guha.

The three groups said lending to infrastructure projects picked up strongly although there is still a big gap between the amount sanctioned for infrastructure projects and the amount actually disbursed.

Corporate lending remains subdued, against a backdrop of falling growth, low prices and overcapacity.

Industrial Development Bank, India's biggest lender, said its profit after tax grew 11 per cent to Rs3.6bn ($85m) in the three months to June 30. Loan sanctions rose 91 per cent, with infrastructure taking up a third of all lending approvals.

Industrial Credit and Investment Corporation said its profits increased 17 per cent to Rs2.6bn. Loan approvals were up 140 per cent, though disbursements were up only 53 per cent.

State Bank, the country's biggest commercial bank, said profits rose 33 per cent to Rs4.3bn, lifted by strong fee income. Total deposits at June 30 were up 19 per cent and loans were 16 per cent higher.

The recruits announced yesterday include G. Krishnamurthy, chairman of Life Insurance Corporation of India, and D. Sengupta, chairman of General Insurance Corporation of India.

Marti Subrahmanyam, professor of finance at Stern School of Business in New York, and Narayana Murthy, chairman of Infosys Technologies, the software company, have also joined the board. ICICI says the directors will bring expertise "in the areas of retail business, technology, global finance and the insurance sector".

Mr Kamath sees an opportunity to step into the gap left by the slow demise of the non-banking finance sector – which pioneered consumer credit in India from the late 1980s, but suffered a string of high-profile failures in recent years.

"Less than 5 per cent of the assets of the banking sector are in the personal finance business, yet almost all their liabilities come from the retail side," he says.

Mr Kamath adds that ICICI – which in the past 12 months has bought two finance companies and a number of consumer loan books – will look for further acquisitions, but may choose to buy assets rather than companies, which could carry hidden debts.

It is also planning to launch a credit card soon, which could be through a joint venture. This year, State Bank of India signed a joint venture with GE Capital, of the US, to issue Visa cards, but the project has been slow to get off the ground.

"Credit cards represent a growing business in India," says Mr Kamath. "It is only at the basement level, but it is growing at about 100 per cent annually." He adds that credit cards could form the main vehicle for expanding consumer lending. Home loans and car loans are also on the agenda.

Meanwhile, Mr Kamath is keen to expand his portfolio of savings and investment products. This will include mutual funds managed by Prudential ICICI, a joint venture asset management company set up by the two groups in May.

"Mutual funds are replacing bank deposits very quickly in the west," he says, with debt and money market funds also capturing a chunk of Indian savings.

ICICI hopes to set up a joint venture insurance company with Prudential if and when the sector is opened to foreign participation. "The asset management company is only a first step," says Derek Stott, Prudential's representative in India. He says the two partners aim to offer life insurance, long-term savings contracts, pensions, and health cover.

ICICI is underpinning its strategy with an effort to create a more consumer-friendly image – summed up in its new logo, a colourful umbrella. It plans to increase its number of branch offices from about 100 to about 150, mainly by expanding its subsidiary, ICICI Bank.

Mr Kamath believes ICICI will ultimately offer a "one-stop shop" for personal finance with a range of savings and borrowings products. "Each product is an additional source of revenue," he says.

But ICICI is not the only financial institution in India to have woken up to the potential of retail business. State Bank, with more than 8,000 branches, is stepping up its personal loan business. A number of foreign banks – including Citibank, HongKong Bank, Standard Chartered, ANZ Grindlays and ABN Amro – are also making a determined push.

Whether ICICI emerges as one of the winners from the boom in personal finance will depend on its ability to sell itself to customers and manage credit risks associated with retail banking.

The reward for success would be a stream of fee income and a loan portfolio to balance its exposure to troubled industrial groups.

Tourism slump hits HK group

By Louise Lucas in Hong Kong

Less than half the rooms were filled at The Peninsula, the grande dame of Hong Kong's hotels, in the first half of the year, helping depress interim earnings at Hongkong and Shanghai Hotels by 29 per cent.

Net profits for the group in the first six months fell to HK$291m (US$37.6m), from HK$412m, dented largely by the slump in tourism in Hong Kong.

In particular, Japanese travellers have avoided the territory because of Japan's slow economy and weak currency.

"Whilst there are positive influences in parts of our business, there is no doubt that the economic woes affecting the region have inflicted pain on our Hong Kong operations," said Pierre Boppe, chief executive.

Hongkong and Shanghai Hotels has tackled the fall in tourism, which began after the handover of sovereignty in June last year, in different ways at its two hotels.

Average room rates at The Peninsula were cut by a modest amount with the focus instead on promotions and tapping new markets, including local residents.

In contrast, the more mass market Kowloon Hotel halved its average room rate from a year ago resulting in occupancy barely changing from last year's 84 per cent to 81 per cent.

"The rationale at The Peninsula is that it takes many years to build up a room rate and only five minutes to throw it away, which we are not about to do," said Douglas Webster, director of finance and corporate services.

However, occupancy rates at the hotel fell to 45 per cent from 70 per cent.

Analysts said the results, which were lifted by stronger yields at The Peninsula Beverly Hills, were in line with expectations.

Basic earnings per share fell 29 per cent, from 35 cents to 25 cents in the six months to June 30, and the interim dividend has been cut from 15 cents to 5 cents.

Brierley sells US, Australian hotels

By Terry Hall in Wellington and Russell Baker in Sydney

Brierley Investments, the News Zealand based group which is undergoing an extensive restructuring, last night announced the sale of its Australian and US hotel interests.

This follows its decision to sell its controlling interest in Thistle Hotels of the UK.

Brierley said it had sold Austotel, its chain of Australian hotels and pubs, for A$300m (US$186m) to Foster's Brewing Group, the Australian beer maker.

Brierley said after paying down debt it would receive A$160m for the equity component of the investment, which had a book value at June 30 of A$182.7m.

Sir Roger Douglas, executive chairman, said the price received for Austotel was "excellent".

The sale consists of 56 hotels in Queensland, New South Wales and Victoria and 47 off-licences in Queensland.

Ted Kunkel, Foster's chief executive, said the acquisition "will deliver strong growth potential for our hotel and leisure business while also providing opportunities to enhance distribution of all our products".

Foster's already owns 103 hotels in Victoria, Queensland, West Australia and New South Wales and 33 off-licences in Queensland.

Brierley also announced the sale of the Beverly Prescott Hotel in Los Angeles for US$29m, which was equal to book value.

THE PROPERTY MARKET NEW BENCHMARKS

Make the connection

Property investment should be seen as directly relevant to business performance, argues **Marion Weatherhead**

Customers are making their presence felt in the commercial property market to achieve profitability by matching accommodation provision to core business needs.

The drivers of change are new technologies and improved connectivity, which give business managers greater operational and locational freedom. Those groups that neglect such opportunities have been overtaken by technologically aware entrepreneurs.

Gone are the days when business managers had to locate everyone near to filing cabinets of key information. A good deal securing lower rent is now less important as other factors make significant contributions to reducing occupancy costs.

Enlightened business managers are creating new benchmarks. Solicitors Narbarro Nathanson's new offices cut occupancy costs by 20 per cent, bringing them 2 per cent below the industry average, an advantage going straight to the bottom line.

Geoffrey Lander, the Narbarro Nathanson partner charged with developing a real estate strategy, says: "To ensure solicitors kept their cellular offices savings came from reducing non-productive space, finding a building with floor plates that divided efficiently, agreeing a tailored turnkey fit out and having the landlord take responsibility for maintenance."

He went on: "Flexibility comes from sharing a building which gives opportunities to sublet surplus space or rent additional accommodation according to need." The long term gain is the brightest young solicitors will be attracted by individual offices and the knowledge that the economic rent fixed for 15 years means profits will not disappear in increased rent payments.

Chase Manhattan, America's largest bank, has been working along these lines throughout the 1990s. With each new business acquisition, occupancy cost levels were set to drive profitability by reducing from 9.7 per cent of revenues to 4.5 per cent. This contributed to a fall in costs from 66 per cent to 55 per cent of operating revenues, which in turn led to after-tax profits growth of 33 per cent a year compound. Cesar Chekijian, senior vice-president, says: "Real estate solutions should exceed shareholder's expectations."

The intensity of office use varies by industry, location, age and function. Mark Wist, senior research consultant with surveyors Gerald Eve points out that many of the results are counter intuitive. For example, modern buildings and financial service firms were not the most intensive users of space. Surplus space, about 22 per cent of office space, according to David Pike of Occupational Property Databank, explains some of these results.

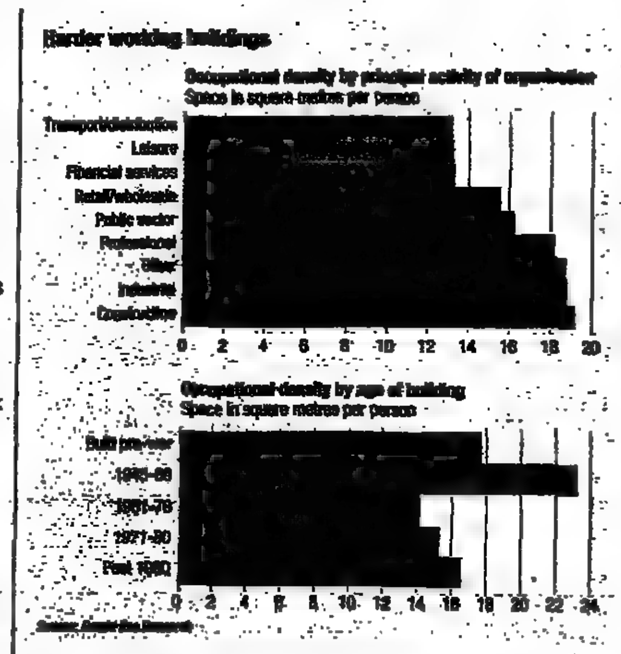
Aiming to reduce property costs in isolation is fraught with problems because property cutbacks can easily increase other costs.

Those groups that are making the greatest gains are those that have striven for property solutions to suit their business needs, rather than accept the conventional services of the UK property market – inflexible buildings, onerous leases and five-year upward only rent reviews.

Most UK businesses do not have a director with a proactive property brief. Many relegate all property decisions to middle managers. Consequently main boards are unaware of occupancy costs which can exceed 15 per cent of total costs and have no idea of the returns on property assets. It is surprising that their institutional investors do not ask more questions.

Manufacturing is finding profitability from traditional operations difficult and needs every possible saving.

American companies are already attuned to the strategic importance of property and are not prepared to take on the burdens carried by their UK counterparts. James Carreker, chief executive of the US firm Aspect Communications, says that while the UK may be ideal as an initial European base, "onerous [property] conditions will affect where we grow the business".



Some landlords are providing adaptable accommodation, let by licence rather than lease, for short periods which can be extended. Peter Kershaw, managing director of American-owned HQ Business Centres, said at the FT Corporate Property Conference, that they are focusing on "providing accommodation which meets clients needs without unwanted over-specification adding to costs".

Expanding UK companies have growing needs for global advice. This has brought US property service providers into the UK market with partnerships, such as Richard Ellis and Hillier Parker, succumbing to American ownership and giving transnational clients property-based solutions based on local knowledge.

Only a few UK companies are really innovative in their use of property. Others need encouragement. Should the analysts be asking more questions? Do the institutional investors, who are also often landlords, want to know?

The author is head of strategic property with Gardiner & Theobald management consultancy and author of Real Estate in Corporate Strategy

Flexible: Chase Manhattan on Wall St Veronica Garbutt

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Brierley sells US, Australian hotels

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NEWS DIGEST

TELEPHONY

FCC chief warns on SBC and Ameritech

The chairman of the US Federal Communications Commission warned yesterday that SBC and Ameritech, the US local telephone companies, would face a difficult task persuading regulators their planned $57bn merger was not anti-competitive. Speaking in Brussels, William Kennard said the two groups faced a "heavy burden" in proving that their merger would be in the US public interest.

"This proposed combination involves a pretty massive consolidation in the US market and we are going to have to look at this very carefully," said Mr Kennard, who as FCC chairman will play a key role in approving the deal.

SBC's planned all-stock takeover of Ameritech would leave it with a stock market value exceeding $120bn, and around a third of the $100bn US market for local calls. While analysts have suggested the FCC would not be able to block the deal since the two companies are not direct competitors, Mr Kennard's comments suggested the regulator might seek similar concessions to those demanded in the tie-up of Bell Atlantic and Nynex. **Neil Buckley, Brussels**

DEFENCE

Raytheon advances 29%

Raytheon's defence electronics operations, reinforced by two acquisitions last year, helped boost the military contractor's second-quarter earnings by 29 per cent to a record $270m. Gains in commercial aircraft also served to offset a 33 per cent drop in operating income at the engineering and construction divisions which suffered from slower growth in international markets.

Earnings per diluted share, excluding extraordinary items, were 77 cents, in line with expectations, compared with 88 cents last time. Income by this measure appeared to fall because Raytheon issued about 103m new shares last year when it bought the Hughes Electronics defence assets of General Motors for the equivalent of $9.5bn.

Group revenues rose 53 per cent to $5.1bn as the impact of the expansion took effect, and the electronics divisions alone reported revenues of $3.8bn and operating income, excluding one-off charges of $510m.

Earlier this week Raytheon said it had arranged to sell its UK-based commercial flight training division and buy AlliedSignal's communications arm.
Christopher Parkes, Los Angeles

BANKING

Bankers Trust beats forecasts

Bankers Trust shares edged up yesterday after the bank beat analysts' second-quarter earnings estimates before a special charge, despite further provisioning against losses in Asia. Before the charge, BT reported net income of $228m, up from $213m, producing earnings per share of $2.06, 3 cents ahead of estimates and above last year's $1.89. The bank took an after-tax charge of $64m for the cost of repositioning its European equity business, including the integration of NatWest Markets' European equities business, acquired in April.

In response to conditions in Asia, the bank recorded a $80m provision for trading-related credit losses. As of June 30, cross-border exposures in Korea, Indonesia and Thailand were $2.5bn down from $3.5bn in December.
Tracy Corrigan, New York

CHEMICALS

Dow reports decline

Dow Chemical yesterday reported a fall in net income to $425m for the second quarter, down from $571m a year ago. However it beat analysts' estimates by 2 cents with earnings per share of $1.86, down from $2.22 excluding unusual items a year ago. Sales in the second quarter amounted to $4.9bn, down from $5.4bn. Lower local prices, a strong dollar and deteriorating conditions in Asia reduced selling prices by more than $500m and outweighed the favourable effects of lower feedstock costs and a 2 per cent volume gain, excluding the effect of acquisitions and divestitures, the company said.

Prices declined by 10 per cent overall, as a result of weaker pricing and negative currency impact. **Tracy Corrigan**

DOCUMENT PROCESSING

Digital copies lift Xerox

Xerox's revenues from selling a new generation of digital copiers exceeded sales of traditional analog machines for the first time in the latest quarter, the US document processing company reported yesterday. Thanks to the transition, Xerox's revenues increased 9 per cent, to $4.7bn, despite falling sales in Brazil and Japan and the effects of the higher dollar. Together with cost-cutting, this lifted Xerox's underlying net income by 17 per cent to $395, or $1.09 a share, slightly ahead of stock market expectations.

Including an after-tax charge of $1.1bn, connected to a restructuring announced last month, Xerox reported a loss of $712m, or $2.19 a share. **Richard Waters, New York**

TRUCKMAKING

Freightliner eyes Mexico plant

Freightliner, the US truckmaker owned by Daimler-Benz of Germany, may revive a former Mercedes-Benz bus plant in Monterrey, Mexico, to meet burgeoning North American demand for heavy commercial vehicles. Jim Hebe, Freightliner's chief executive, said he was "actively considering" new sites.

Freightliner has been surprised by the strength of heavy truck demand, which had been widely expected to weaken. The North American market for the heaviest Class 8 vehicles should reach 230,000 units this year – the second highest volume on record – with about 200,000 sold in the US. Such buoyant demand, bolstered by the strong economy, has prompted shortages and delays for some products.
Haig Simonian, St Thomas, Ontario

CONSUMER PRODUCTS

Colgate-Palmolive ahead

Colgate-Palmolive, the global consumer products company based in New York, reported a rise in second-quarter earnings to 67 cents per share, up from 58 cents per share last time. Colgate said "strong" increases in operating profits at its North America, Latin America and Europe subsidiaries "more than offset" the decline in earnings due to economic turmoil in Asia and Africa.

"The combination of increasing margin and reducing overhead again allowed us to increase worldwide advertising to build market share," said chairman Reuben Mark. Colgate said worldwide sales of $2.26bn, slightly less than last year's $2.3bn, would have risen 5 per cent if not for currency translation. **Michael Lipin and Agencies**

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

TELECOMS PROGRESS IN CUTTING COSTS BOOSTS MA BELL'S EARNINGS WHILE EBBERS PROMISES 'AGGRESSIVE INVESTMENT'

Growth rates diverge at AT&T, WorldCom

By Richard Waters in New York

The growth rates of AT&T and WorldCom continued to diverge markedly in the latest quarter, reflecting the problems the former has had in reigniting sagging revenues while the latter received another boost from the rapid growth of the internet.

Despite an increase in revenues of only 1 per cent, however, AT&T made headway in cutting costs, in turn boosting its operating earnings and giving an important lift to its share price.

The company's stock rose $1 13/16 to $59⅝ early yesterday, around its highest level since the US telecoms company announced its acquisition of TCI, the cable television group. An earlier decline to below $55 had raised questions about whether AT&T would be forced to renegotiate the deal.

WorldCom has seen its share price break free of earlier concerns about the impact of its takeover of MCI. The stock rose $2⅛ yesterday to $56⅝, representing an 85 per cent gain this year.

At AT&T, revenues were held back by a 3.7 per cent decline in the core consumer long-distance business, which more than offset a 2.7 per cent increase in revenues from business customers. Both segments generated revenues of $5.7bn.

Thanks in part to an early retirement programme, AT&T succeeded in cutting its general overheads to 27.6 per cent of revenues, from 30 per cent.

As a result, earnings from continuing operations, before restructuring charges, climbed 60 per cent to $1.45bn. After a $1.7bn post-tax charge for the early retirements, and a $1.3bn gain on a disposal, AT&T reported a 20 per cent rise in net income to $1.15bn, or 71 cents a share.

WorldCom, meanwhile, saw internet revenues jump by 73 per cent in the second quarter to $526m, while international revenues surged 52 per cent to $299m.

WorldCom would continue "to invest aggressively" in these two areas, even though MCI had been forced to shed its own internet business to win regulatory approval for the merger, said Bernard Ebbers, chief executive.

The higher revenues lifted WorldCom's operating profit margin to 19 per cent, from 10 per cent. After-tax profits climbed to $221m, or 21 cents a share, from $38m.

The growth rates of the Baby Bells has displayed a more consistent pattern than that of the long-distance operators, thanks to the lack of pricing pressure and steady growth in demand for new lines in their entrenched local markets. However, regional disparities and varying success in selling data and wireless services have become evident.

Yesterday, Bell Atlantic, the largest of the five Bells, registered a 3 per cent advance in revenues for the latest quarter, a slower pace than its main rivals, while net income rose 11 per cent to $1.1bn, or 68 cents a share.

The day before, BellSouth, which covers the south-eastern US, reported underlying revenue growth of 10 per cent, though acquisitions lifted that to 15 per cent. While BellSouth's access lines have been increasing at about the same rate as Bell Atlantic, it has had more success in selling other services – including a 44 per cent increase in revenues from data and digital services, to $432m.

Deals slow Monsanto

By Nikki Tait in Chicago

Soybeans: Monsanto has an engineered version AP

A heady acquisition programme pursued by Monsanto, and its sharply increased spending on the development and commercialisation of new products, continued to hold back short-term earnings growth.

The St Louis-based company, which is planning to merge with the larger American Home Products this year, announced yesterday that after-tax profits from continuing operations in the second quarter totalled $257m, or 41 cents a share, on sales of $2.5bn.

This compared with $250m, or 41 cents, in the second quarter of 1997, when sales were $2.1bn. (The 1997 figures exclude results from chemical operations spun off as a separate company later in the year).

Monsanto, whose aggressive push into the agricultural biotechnology field has made it the focus of controversy in Europe, said it had seen "significantly increased" sales of agricultural and other core products.

This included a very strong sales performance worldwide from its leading Roundup herbicide, which can be used with a range of genetically engineered crops tolerating the herbicide while surrounding weeds are killed off.

Roundup volumes in the first six months of the year increased "significantly", it said, with volume growth running "well above the trend-line growth for Roundup of greater than 20 per cent annually".

But on earnings, Monsanto was held back by a $200m increase in "growth" spending – a 60 per cent jump compared with the second quarter of 1997. This covered research and development, commercialising products, and acquisition-related costs.

Monsanto's acquisition appetite has been huge: over the past three years, it is estimated to have spent about $8bn buying seed-related companies. In the second quarter of 1998 alone, it announced four large deals in addition to the AHP transaction.

The company revealed that as a result of three of the latest deals – the purchase of DeKalb Genetics, which still requires regulatory approval, Cargill's international seed operations, and Plant Breeding International Cambridge in the UK – it would take an $800m-$1bn write-off, with the charges recognised when the deals close.

'Magic bullet' drug approved

By Victoria Griffith in Boston

The world's first drug based on "magic bullet" antisense technology has been approved by the US Food & Drug Administration's advisory committee in a regulatory proof of concept that could pave the way for more treatments of its kind.

Isis Pharmaceuticals and Ciba Vision, a subsidiary of the Swiss pharmaceuticals company, developed the drug, a treatment for Aids-related retinitis. This is an eye disease that afflicts mostly Aids patients and leads to blindness. Ciba said it expected US sales of the drug to reach $100m a year.

Isis shares surged 30 per cent to $17½ in after-hours trading following the announcement late on Wednesday, before dropping back to $14⅝ early yesterday.

"The committee's approval is proof that these drugs work in the real world," said Frank Tung, a scientist at the University of Pittsburgh.

Antisense technology attracted a great deal of attention in the early days of biotechnology, but quickly fell out of favour after a number of treatments tested poorly in the laboratory. The drugs are designed to affect only the proteins directly involved with the disease.

Antisense is essentially a mirror image of a strand of DNA, engineered to overlay it precisely. Once in place, the antisense drug prevents the protein from producing any more of the harmful enzymes. The main challenge in antisense is getting the treatment to the target molecules. Isis has overcome this by applying its retinitis drug directly to the eye.

The promise of antisense is that because it is custom-designed, the drugs should produce few side-effects.

"It's like treating a disease with a laser, as opposed to a sledgehammer, which is how we've done it in the past," said Stanley Crook, chief executive of Isis.

Sears ahead of expectations but shares still drop

By Nikki Tait in Chicago

Sears Roebuck, one of the largest US retailers, yesterday posted profits slightly ahead of market expectations, but continued to be bothered by its troubled credit-card portfolio.

The group said after-tax profits in the second quarter were $336m, or 85 cents a share, compared with $117m a year earlier. However, both numbers reflected one-off items, and on a comparable basis, the underlying result was profits of $318m, or 80 cents, marginally up from $311m, or 78 cents, in the similar period of 1997.

Analysts expected about 78 cents but Sears shares still dipped $1¼ to $55 5/16.

The company said that second-quarter sales were $10.25bn overall, with domestic revenues rising by 6 per cent to $9.43bn. Retail sales increased by 6.6 per cent – with comparable store sales rising just under 3 per cent. But the domestic gross margin fell from 26.5 per cent to 26.1 per cent, as higher promotional spending on the retail side pushed down margins and offset an improvement in services.

Arthur Martinez, Sears' chief executive, said it had seen strong sales in areas such as home appliances, electronics and garden products, and clothing.

But Sears posted a $348m provision for uncollected accounts in respect of its domestic operations, up 25 per cent from last year. This reflected the higher delinquency and charge-off rates that have plagued the retailer for more than a year.

Sears took some comfort from the numbers, however, with Mr Martinez pointing out that, despite the negative year-on-year comparisons, the delinquency and charge-off rates had improved since the year-end.

Telebrás bidders line up

By Geoff Dyer in São Paulo

A total of 76 companies have qualified to take part in the sale next week of Telebrás, Brazil's telecommunications group, in what is expected to be the biggest privatisation in Latin America.

The list, published yesterday, includes many of the leading international telecoms companies, such as Telefónica of Spain, Telecom Italia, BellSouth, Airtouch and Southwestern Bell of the US and Bell Canada.

Analysts expect the list of companies will form up to 20 bidding consortia at the auction, which is scheduled for next Wednesday, and negotiations between potential partners are expected to continue until the last minute. Some companies, such as Telefónica, have registered through several subsidiaries and appear more than once on the list.

Telebrás is to be divided into 12 new subsidiaries – three fixed line businesses, eight cellular companies and Embratel, the long distance operator – which will be sold in sequence at the auction.

Analysts believe that the two groups likely to be most aggressive are Telefônica and Telecom Italia. Telefónica was the leader of a consortium which in June bought control of CRT, the telephone company in the southern state of Rio Grande do Sul, which was not part of Telebrás. As a result it is expected to be specially interested in the neighbouring Tele Centre South region.

Telecom Italia, which like Telefónica, has a large investment in Argentina, is thought to be interested in all three fixed businesses. BellSouth could also be a contender for Telesp, the São Paulo state fixed line business.

For Embratel, analysts believe that two bidding consortia are taking shape, one led by MCI, the US long distance operator, and the other around Sprint, another US company.

A group of Brazilian pension funds are being courted as partners by a number of bidders.

Moore to shed one in four jobs

By Edward Alden in Toronto

Moore, the troubled maker of Canadian business forms and labels, said yesterday it would take a US$630m pre-tax charge next quarter as part of a restructuring that will cut its workforce by one-quarter.

The company intends to reduce manufacturing capacity, cut overheads and continue to refocus on its core North American market.

The plan comes as Moore reported a worse than expected second-quarter loss of US$21m, compared with net earnings of US$30m last year. The 24 cents a share loss compared with analysts' estimates of a 7 cents loss.

The loss was attributable mostly to continued weakness in the company's North American business. Operating expenses also increased sharply in the quarter, to US$180m from US$141m.

"The unsatisfactory second-quarter results only heighten the need for a comprehensive restructuring program that will make fundamental, permanent changes and realign the company's cost structure," said Ed Tyler, Moore president and chief executive, officer who was appointed after a management shake-up last year.

The restructuring will result in 4,800 of the company's 20,000 employees being cut, mostly from the sale of lossmaking operations.

The company predicts this will result in annual savings of more than US$120m by 2001.

INTERACTIVE TV HOSTILE BID WITHDRAWN

United Video admits defeat over Gemstar

By Christopher Parkes in Los Angeles

United Video Satellite Group has withdrawn its hostile $2.8bn bid for Gemstar, a leading developer of interactive television technology.

The brief tussle ended after Gemstar – best known for its VCRPlus+, the system that allows people to programme a video recorder without the help of a teenager – reinforced both its defences and its links with other companies.

The withdrawal is a setback for United, a programme listings specialist with on-screen and print services, controlled by Rupert Murdoch's News Corp and TCI, the cable TV company being acquired by AT&T.

It had hoped to gain control over what is seen by some as a promising, user-friendly programme selection and sorting system that could be a precursor of systems making interactive services available by television to the least sophisticated consumers.

Its aggression served instead to push Gemstar closer into the arms of two of United's owners' sternest rivals: Microsoft, and the NBC broadcast network, which are already closely linked in the MSNBC hybrid news service accessible via the internet and its own cable television channel.

As Gemstar built up its defences with a shareholder rights or "poison pill" scheme, it also signed up for joint marketing efforts with Microsoft, which will include its latest programme services system in Windows 98.

It is believed Microsoft, which last year invested $1bn on Comcast, the fourth largest US cable operator, took a small stake as part of that deal, which was followed by an alliance with NBC, which will also promote and provide advertising for Gemstar systems.

Although Gemstar will remain independent for the time being, it is believed the board resisted the United offer because it expects the company's value to increase sharply in the near future.

Its latest introduction, which allows a viewer to watch a programme and select the rest of the evening's viewing programme from an on-screen window, generated its first revenues only last year when it was introduced in the US.

ICI shares fall 15% on full-year warning

By Virginia Marsh

Imperial Chemical Industries, the largest UK-based chemicals group, issued a profits warning yesterday, triggering a near 15 per cent fall in its shares and a sharp cut in analysts' profits forecasts.

Almost £1bn ($1.65bn) was wiped off the group's market value after it accompanied interim results with a warning that profits in the second half would be lower than in the same period last year mainly because of the economic crisis in Asia, the strong pound and a downturn in bulk chemicals.

"The remainder of the year is likely to be even more challenging," the group said echoing a profits warning from DuPont, the US chemicals giant earlier this month.

Analysts cut profits forecasts for the full year by about 25 per cent and the shares fell 131p, 14 per cent, to 780p, compared with £12.44 less than three months ago.

Brokers said it was the first time they had known ICI, whose profits have fallen steeply at times in recent years, to issue a profits warning. Despite the scale of yesterday's downgrades, the group maintained its comments constituted a "prudent and cautious" statement rather than a profits warning.

The warning follows controversial telephone briefings to selected analysts last month which also led to profits downgrades, of up to 11 per cent. The London Stock Exchange is understood to have investigated a possible breach of its rules after complaints the group should have issued a public statement at the time.

The market is now expecting pre-tax profits of £400m-£420m this year. Last year ICI made £518m on sales of £11.06bn but after the purchase of Unilever's speciality chemicals for £4.7bn last year some analysts had predicted 1998 profits would exceed £1bn.

Yesterday ICI unveiled pre-tax profits of £192m (£180m), before exceptionals, in line with expectations, on sales of £4.7bn (£4.97bn) for the six months to June 30. There were exceptional gains of £43m.

Charles Miller Smith, chief executive, said the biggest difficulties were in industrial chemicals, a business the group has said it would sell.

Lex, Page 16

Market takes no prisoners although ICI holds up its hands

Virginia Marsh analyses why investors seem pessimistic about the chemical group's progress in transforming its portfolio

It is not often that on the same day that a company's strategy is vindicated, its share price records one of its biggest ever falls.

Yesterday, shares in Imperial Chemical Industries fell 14 per cent to 780p, down from £12.44 in May. The chemicals sector followed ICI down, falling 8 per cent.

But the one thing upon which chemicals analysts agreed last night was that the outlook for the group would be considerably worse if it had not last year embarked on a radical reshaping of its portfolio.

"The problems are very much related to timing. The company has yet to get the full benefits from the last year's acquisitions and is still saddled with the fag-ends of what it has decided to get rid off," one analyst said. "On top of this it has been hit by a whole raft of factors beyond its control like currency."

The main culprit for yesterday's warning that second-half profits would be lower than last year's – the first profits warning by the group that analysts could remember – was industrial chemicals, the rump of the old ICI which is being discarded in favour of speciality chemicals.

Some of the division is in the process of being sold, and ICI hopes it can agree the sale of the remainder, which mainly comprises petrochemicals and chlorine and caustic chemicals businesses, before the end of the year.

Battered by the strong pound, the financial turmoil in Asia and falling selling prices, the division slipped into a small operating loss in the second quarter and analysts now expect it to record a deficit of about £40m for the full year.

This was the main factor behind yesterday's 25 per cent cut in many pre-tax profits estimates for the full year, the latest in a series of downgrades.

A year ago, when ICI announced the purchase of Unilever's speciality chemicals businesses – National Starch and fragrances and flavours operations – for £4.7bn, some analysts had predicted the group would make profits of more than £1bn this year.

Before yesterday some analysts had been expecting pre-tax profits of £520m but the consensus is now about £410m, although one broker was forecasting just £300m. Last year the company made £518m on sales of £11.1bn.

Charles Miller Smith, chief executive, said yesterday: "Our difficulties are in bulk chemicals, which among other things have been hit by the cyclical nature of that business and that is exactly why we decided to exit from bulk chemicals a year ago.

"But our results will still be affected by what happens to bulk chemical prices and by the length of time these businesses remain in our portfolio."

Not only is the industrial chemicals business now loss-making, but the delay in completing agreed disposals and in finding buyers for the other businesses has ratcheted up ICI's interest bill. With net debt at £4.38bn, gearing is now nearly 100 per cent.

Debt will fall in the second half when ICI expects to collect about £1bn from the disposals it has agreed.

But another reason for the profits downgrades is that analysts had expected the group to complete the sales – and bank the proceeds – of the other industrial businesses in the second half. Most now believe this will not happen and, perhaps more importantly, there is also doubt over how much further disposals will raise.

Martin Evans, chemicals analyst at Sutherlands, says that because of the worsening outlook in the sector – ICI's profits warning follows one this month by DuPont – the businesses for sale may fetch far less than ICI might have expected a year ago.

Then, it might have hoped to equal their turnover of about £2bn. Now Mr Evans says they could sell for as little as 30 per cent of annual sales.

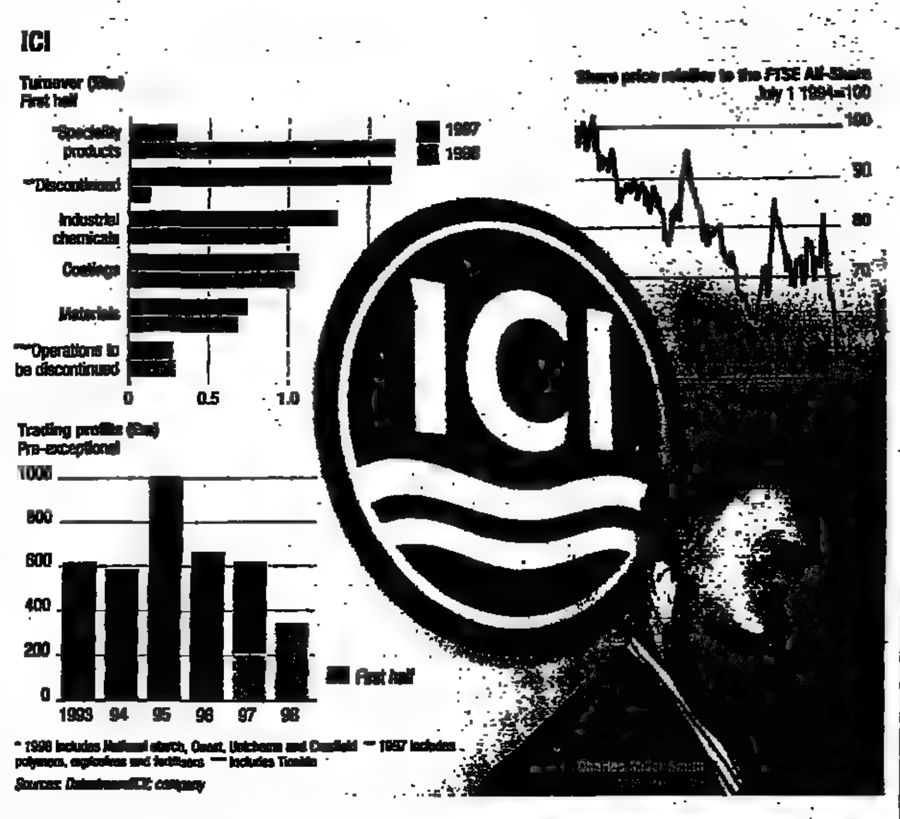
"The company is in danger of facing a credit squeeze if its huge net debt doesn't come down quickly. This is not a comfortable position to be in when trading is as difficult as it is," he said.

Most other analysts, however, predict the businesses will go for a multiple of closer to 70 per cent of sales, on the basis that strategic buyers will look beyond the sector's short-term difficulties.

The pity will be if the debt position prevents ICI from moving ahead with development of its core businesses, which as well as the Unilever acquisitions include coatings and materials divisions. While the former Unilever businesses have also been hit by the Asian downturn, analysts say their performance is encouraging.

But as Mr Miller Smith said: "We need to drive our disposal programme through to provide the financial headroom to feed our quality businesses."

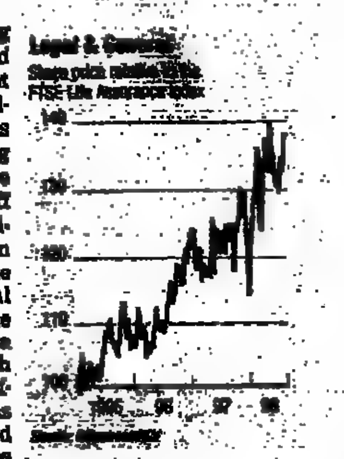
ICI



* 1998 includes National starch, Quest, Unichema and Crosfield ** 1997 includes polymers, explosives and fertilisers *** Includes Tioxide
Sources: Datastream/ICI; company

COMMENT

Legal & General



Legal & General took a big risk in 1995 when it started cutting prices to win market share. It has paid off handsomely. Such a strategy has depended not only on pricing but on a drive to improve technical systems and staff productivity. With new business growing even faster in the second quarter than the first – contrary to general sector expectations for the sector – the circle remains a virtuous one. Of course, with margins being squeezed, profits are not running as fast as volumes. At the achieved profit level, which smoothes life profits over the policy term, the advance was less than 16 per cent.

From here on, no one believes that 42 per cent UK new business growth is sustainable. The market has thrived on consumer confidence – which is past its peak. Extensive competition will aggravate the impact of slackening demand growth on margins. While it is perfectly plausible that L&G, with only 5 per cent of the market, will continue to outdo its rivals, the trick becomes a tougher one.

For the investor, all the good news looks to be in the price, which is about twice embedded value – roughly 20 per cent ahead of, say, Prudential and Norwich Union. But this would not be a stock to sell. L&G's slick mass market system looks just right to exploit such new savings products as ISAs, and stakeholder pensions. And any trading slip would be countered by predatory interest.

Nationwide

It is small comfort for Halifax and other quoted mortgage banks that Nationwide has hung on to mutuality by the skin of its teeth. Brian Davis and his zealous crew will keep squeezing the gap between saving and borrowing rates to 1.2 percentage points, or less, grabbing market share. One slim hope for competitors is that its days as a mutual are numbered. But why would Nationwide plc, or a new banking owner, radically change a successful strategy? As Northern Rock showed yesterday, it is not only the mutuals that can compete hard.

Should Halifax, Alliance & Leicester et al join the margin-squeezing fray to protect market share? Only if they can cut costs to protect returns. Otherwise it is the same patient game of diversifying their activities, waiting for the right deal, and pacifying shareholders with buybacks.

Willis bid move 'inadequate'

By Christopher Adams, Insurance Correspondent

A leading shareholder in Willis Corroon has hit out at the £951m ($1.6bn) offer from Kohlberg Kravis Roberts, the US-based private equity fund, for the insurance broker, describing it as "inappropriate and inadequate".

Whitney George, portfolio manager at New York-based Royce & Associates, a fund manager specialising in smaller company stocks which owns 2.4 per cent of Willis through ADRs listed in New York, said the bid undervalued its prospects.

"I would be delighted if someone came in and made another bid," he said. "The prospects for this company over the next five years are very bright. We've been robbed of an opportunity we've been waiting a long time for."

His comments came ahead of the publication of the offer document, expected in the next few days. This is likely to show that Willis has agreed to pay KKR about £6.5m in compensation should an alternative bid be accepted.

Willis is to go private under a deal involving five UK and US insurance companies taking a stake in the group and the company's management subscribing for shares.

The cash offer of 200p a share is equivalent to about $16.40 for ADR holders. Mr George said an offer of $18-$20 would be more acceptable.

Willis' biggest shareholder is PDFM, with 20 per cent. It has agreed to accept the offer, but could accept another bid in respect of half its shareholding if it were at a 10 per cent premium to the existing offer.

Other large investors are Baltimore-based T Rowe Price, STI Capital Management of Florida, Morgan Grenfell Asset Management, and Prudential. Willis shares edged ½p higher to 198p.

L&G stresses independence

By Christopher Adams

Legal & General yesterday delivered a 21 per cent jump in interim operating profits and resurgent growth in new business after taking a bigger slice of the personal pensions and long-term savings markets.

The life assurer's strong performance reinforced its case for continued independence, and the group yesterday sought to damp recent takeover speculation.

"If I could say one and one made more than two, then of course I'd look at a merger," said David Prosser, chief executive. "But why bother? A bank would probably get more out of it than us."

His comments accompanied an increase in operating profits for the six months to June 30 from £155.1m to £187m ($309m), beating most analysts' expectations.

A concerted push for market share, which has involved cutting prices, resulted in a 27 per cent increase in new business sales to £278m. New business is expressed in equivalent premium income, a commonly used industry measure. It comprises annual premiums plus a tenth of single premiums.

Funds under management grew 36.6 per cent from £54.6bn to £74.6bn. The shares rose 25p to 745p, adding to the substantial gains that have caused L&G's market value to jump more than fourfold to £9.4bn since 1994.

Mr Prosser said the group was committed to organic growth. It was benefiting from its competitive pricing strategy, the exploitation of new distribution channels such as telephone sales, and investment in information technology, which had improved service and efficiency.

Roman Cizdyn, analyst at Merrill Lynch, said: "They're delivering the momentum and promise. There's not a lot can go wrong."

The company has been withdrawing from non-core businesses. The sale of its Australian arm in July will generate a profit of £307m in the full-year results.

The company has not increased its reserves in respect of pensions mis-selling since last year and declined to disclose figures.

Pre-tax profits fell from £257.1m to £63.7m, after a charge of £92m for repurchasing convertible bonds and a £31.3m decrease (£102m increase) in shareholders' retained capital.

Nationwide to stay mutual

By Christopher Brown-Humes

Nationwide, the UK's biggest building society, yesterday defeated an attempt to force it to convert to a bank by the thinnest of margins.

Members voted by just 33,700 votes out of 2.2m – a margin of 50.8 per cent to 49.2 per cent – to turn their backs on windfalls of up to £2,000 ($3,300).

Defeat could have spelled the virtual extinction of the 200-year-old building society movement as Nationwide has become the standard-bearer for the cause.

While 1,101,887 members favoured conversion, 1,135,597 opposed it, out of 4.9m eligible voters.

Charles Nunneley, Nationwide chairman, said the result was a "clear mandate to continue with our building society strategy".

Another conversion resolution cannot be put for three years under Nationwide's constitution. But there is nothing to stop pro-conversion candidates standing for the board again next year. Both defeated candidates in this year's elections - Michael Hardern and Andrew Muir - have said they are likely to do so.

Mr Hardern said: "It's not a fair victory. The ballot form was skewed in favour of the board, people were leant on heavily in branches and many people didn't receive their voting forms."

Adrian Coles, director general of the Building Societies Association, said: "This result should be seen as a victory for mutuality."

Other commentators disagreed: "Mutuality is weaker because the vote is so much closer than last year," said one.

Ken Culley, chief executive of the Portman building society, said the result was "too close for comfort".

He joined other society executives in urging the government to look again at legislation that would make it harder for rebels to force conversion votes and have their status debated annually. The government has repeatedly rejected such overtures.

Reuters acquires Lipper service

By Tracy Corrigan in New York

Reuters, the UK-based news and information group, has acquired the fund information business of Lipper Analytical Services, the company founded by Michael Lipper which pioneered performance measurement of US mutual funds.

Peter Job, Reuters chief executive, said the acquisition "will give us access to one of the leading suppliers of fund information to the institutional market and put us at the forefront of the industry."

Lipper will become the main brand for Reuters' push into the funds data business. Mr Lipper will be chairman, and will remain president of Lipper Analytical Securities, Lipper Advisory Services and Lipper Consulting Services, which are not being bought by Reuters.

The deal is "part of a bigger strategy to get into the buy side of the industry", said Simon Thomson marketing director of Reuters Europe, Middle East & Africa, who will become chief executive officer of Lipper Analytical Services.

Three other recent Reuters acquisitions in Europe – HSW, Bopp and Citywatch – will be combined under the Lipper brand. It is also pursuing other fund initiatives in Asia.

Lipper Analytical tracks about 39,000 funds with assets totalling $7,000bn and employs 300 staff worldwide. The value of the cash acquisition was not disclosed.

Lasmo set for Colombian sale

By Robert Corzine

Lasmo, the large UK oil independent, is expected to announce today the successful sale of its Colombian operations, which it put on the block earlier this year.

The deal is expected to cover all five of the company's Colombian assets, which produce about 13,000 barrels a day from reserves estimated at about 40m barrels of oil equivalent, which includes natural gas. A single buyer is said to be involved.

This year Paul Murray, Lasmo's corporate development director, said: "Colombia is just not big enough to be material to us, as we become a larger group."

Lasmo has been active in the South American country since 1984, but Colombia has proved a problematic country for international oil companies, given its high crime rate and the persistent guerrilla war being fought in some parts of the country.

Yesterday Royal Dutch/Shell announced that it too had found a way to dispose of its onshore Colombian assets, which have been transferred to Occidental of the US as part of a wider global swap arrangement.

Although neither company specifically cited the security situation or difficult operating conditions as reasons for withdrawing from onshore Colombia, many industry observers believe they have figured in such decisions.

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Ayrshire Metal	6 mths to June 30	13.9	(22.1)	0.424	(1.21)	2.9	(8)	nil	-	2	-	45‡
Cook (DC)	Yr to Apr 30	227	(188)	3.53	(5.04)	5.42	(8.1)	1.6	Oct 13	1.8	2.44	2.4
Cookson	6 mths to June 30	874.3	(990.3)	78.9	(85.4)	8.2	(8.7)	4.3★	Dec 1	4.1★	-	9.2★
Coutts Consulting	6 mths to June 30	20.8	(18.4)	2.02	(7.68L♠)	1.49	(16.75L)	0.25	Sept 18	nil	-	0.1
Eurodis Electron	Yr to May 31	314	(298.3)	9.28♥	(3.02♠)	8.7	(1.29)	3.45	Oct 30	3.15	5.6	5.1
ICI	6 mths to June 30	4,704	(4,967)	235♥	(159)	18.1	(11)	12.5★	Oct 5	12.5★	-	32★
Industrial Control	Yr to May 31	75.3	(80.4)	39.4L♠	(4.42)	38.5L†	(6.09)	nil	-	0.5	nil	2
Jones Stroud	Yr to Mar 31	79	(81.3)	6.5♥	(6.57♠)	28.7	(21.1)	6.6	Oct 9	5.75	12.1	11
Kam River Φ	6 mths to Mar 31	0.214	(0.17)	0.075L	(0.008)	0.69L†	(0.06)	-	-	-	-	-
Legal & General	6 mths to June 30	-	(-)	63.7♠	(257.1♥)	7.58	(17.18)	4.58	Nov 2	4	-	12.7
Northern Rock	6 mths to June 30	-	(-)	102.3	(62.2♠)	15.5	(8.5)	3.9	Oct 30	-	-	7
Winchester Ent Φ	Yr to Mar 31	1.61	(0.831)	0.105♠	(1.4L♥)	0.9†	(12.4L)	-	-	-	-	-
Worthington	Yr to Mar 31	38.7	(30.3)	4.22	(2.66)	7.3†	(6.3)	2.1	Oct 1	1.9	3.1	2.6

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ★Foreign income dividend. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ‡Includes 43p special dividend.

Utd News shares slip on demerger plan

By John Gapper

Shares in United News & Media fell yesterday after the media group announced a plan to demerge Garban and Harlow Butler, its money and securities broking side, in an effort to attract an improved rating.

The shares fell 29p to 866p on uncertainty over the effects of the loss of cash flow from the division, which produced 15 per cent of trading profits in 1997.

The demerger of the division, to be known as Garban, will be achieved through a distribution of new shares to existing United shareholders. United will then consist entirely of entertainment and publishing operations.

United attempted to reassure shareholders by pledging that it would maintain its current dividend level until it gained cover of 2.5 times. It said the interim dividend in the six months to June would be held at 11p.

Money-broking has been part of MAI – one of two groups that merged in 1996 to form United – since it was incorporated in 1974. However, the operations have become less important to the company as it has expanded into media.

Lord Hollick, United chief executive, said it hoped to gain more investors from the US, who were deterred by the mixture of money-broking and media. "Some investors say that they do not want a hybrid – they want the pure thing," he said.

Although money-broking still contributes cash to United, it is estimated by analysts to account for only £250m-£300m of its market value. The cyclical nature of broking earnings means they are not highly valued.

Lord Hollick said the move was part of a gradual sharpening of focus at the group since the merger. He said there had not been any approaches for the money-broking operations, and United had decided against offering them for sale.

Although cash flow from broking had helped United enter broadcasting by acquiring Anglia, Meridian and HTV, it was no longer vital. "I would not say we won't miss it, but it's not as important to us as it once was," he said.

United has made disposals worth £900m since the merger, and bought businesses worth £1.3bn.

Lord Hollick said it remained watchful for potential acquisitions, particularly in the US, although prices were now at a cyclical high.

A number of large US media companies have taken steps to crystallise the value of some component businesses, and sell those on the periphery. News Corporation recently decided to float its Fox film and television operations.

Dresdner Kleinwort Benson and Merrill Lynch will act as co-sponsors of the Garban listing, and Merrill Lynch will be broker to the new company.

EURO PRICES

EQUITIES

Defence gains keep losses in check

EUROPEAN OVERVIEW

By Vincent Boland

The pan-European equity indices were pushed slightly lower yesterday by a combination of Japanese credit worries, some poor earnings reports from leading companies and continued gloom over observations about high US stock prices from Alan Greenspan, chairman of the Federal Reserve.

The damage could have been worse, however, as news of a big shake-up in the French defence sector gave a boost to stock prices in Paris, which helped to keep index losses relatively modest.

The FTSE Eurotop 100 index closed 10.32 points lower at 2,986.61, while the broader Eurotop 300 index fell 5.17 points to 1,293.30.

The Ebloc 100 index of shares from founder members of European monetary union slipped 4.43 points to 1,098.90.

The chemicals sector posted the biggest fall of the day – down 2.74 per cent after Imperial Chemical Industries of the UK posted disappointing first-half profits. ICI shares fell Ecu 2 to Ecu 11.60 and weighed on the sector. BASF of Germany dropped Ecu 1.3 to Ecu 43.57.

BMW, Germany's luxury car maker, also posted disappointing profits, sending its shares tumbling Ecu 58.8 to Ecu 863.73 and pushing the automobile sector 0.56 lower. Volkswagen lost Ecu 1.2 to close at Ecu 90.05 while Peugeot fell Ecu 2.9 to Ecu 185.79.

But defence stocks were boosted by plans by France to restructure its military industry through a merger of Aerospatiale and Matra with Dassault Aviation.

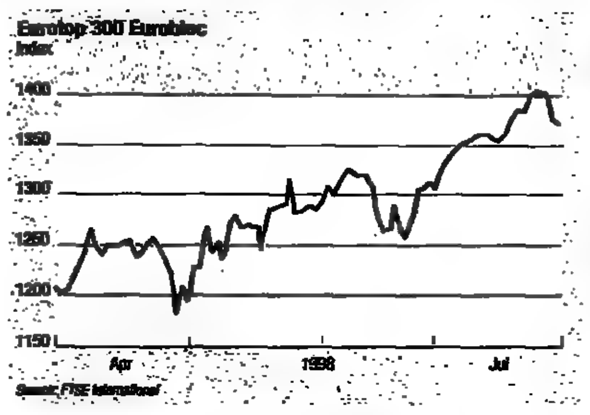
That promised to give a boost to the consolidation of Europe's defence industry and lifted the share prices across the sector.

Lagardère, one of the main beneficiaries of the link-up, rose Ecu 2.7 to Ecu 44.13 and Thomson-CSF gained Ecu 1.5 to Ecu 34.16.

Analysts said that the government-sponsored move would help Europe compete with the US.

Shares in some of Europe's other defence groups rose on talk that one or all of them could be potential partners of the new French alliance.

Daimler-Benz, parent of Germany's DASA, gained Ecu 3.3 to Ecu 92.65 and British Aerospace rose Ecu 2 to Ecu 7.25.



FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

July 23

National & Regional Markets	Index	Day's %	change points	Yield gross %		Total rtn (Ecu)
FTSE Eurotop 300	1293.30	-0.40	-5.17	2.23	19.35	1324.38
FTSE Eurotop 100	2986.61	-0.34	-10.32	2.22	25.81	1064.88
FTSE Ebloc 100	1098.90	-0.40	-4.43	1.80	12.55	1112.39

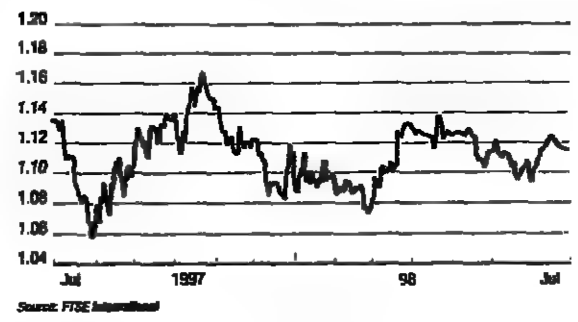
OTHER INDICES

FTSE EUROTOP 300

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

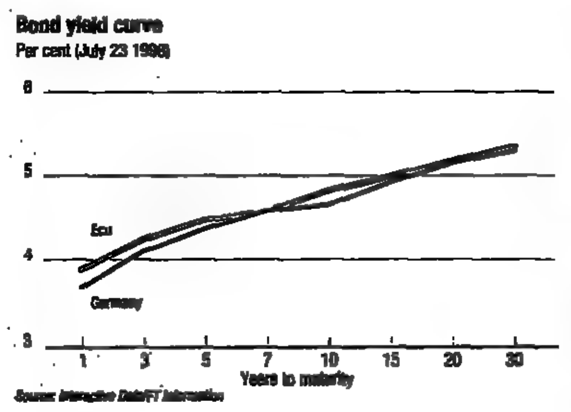
Synthetic Euro against the dollar



Source: FT Interactive

EUROZONE CURRENCY CONVERGENCE

BONDS



Source: Interactive Data/FT Information

EUROZONE CORPORATE BONDS

GOVERNMENT BOND SPREADS vs ECU

EUROZONE CREDIT SPREADS vs ECU

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The 1998 Annual General Meeting of Shareholders of ACM International Technology Fund, will be held at 2:30 p.m. (local time) on Friday, July 31, 1998 at the offices of ACM Fund Services S.A., 35, Boulevard Prince Henri, L-1724 Luxembourg for the following purposes:

Agenda

1. To approve the auditor's report and audited financial statements for the fiscal year ended March 31, 1998.
2. To approve the annual report of the Fund for the fiscal year ended March 31, 1998.
3. To discharge the Directors with respect to the performance of their duties during the fiscal year ended March 31, 1998.
4. To elect the following persons as Directors, each to hold office until the next Annual General Meeting of shareholders and until his or her successor is duly elected and qualified:

David H. Dievler, Chairman
Robert C. Alexander
John D. Carifa
William H. Henderson
Yves Prussen
Mitsuo Suzuki
Robert C. White

5. To appoint Ernst & Young, Luxembourg, as independent auditors of the Fund for the forthcoming fiscal year.
6. To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on Wednesday, July 29, 1998, are entitled to notice of, and to vote at, the 1998 Annual General Meeting of Shareholders and at any adjournments thereof.

By order of the Board of Directors

July 1, 1998

David H. Dievler
Chairman

Legal & General

Willis bid move 'inadequate'

Lasmo set for Colombian sale

Gilts fall on oversupply worries

GOVERNMENT BONDS

By Jeremy Grant in London and Richard Waters in New York

European prices ended largely unchanged in uninspired trade but gilts were lower on oversupply worries.

Attention swung back to political developments in Japan, with Federal Reserve chairman Alan Greenspan's testimony to Congress out of the way and fears subsiding over a revival of the interest rate debate in the US.

The Bundesbank, as expected, left German interest rates unchanged at its regular meeting. Investors are likely to refocus on movement on the dollar/yen exchange rate, analysts said and tone was still fundamentally supportive.

"Bonds were struggling to make further headway. But the theme globally is still a relatively positive one: the Germans have inflation under 1 per cent and the Bundesbank has packed its holiday buckets and spades, leaving rates unchanged," said Kit Juckes, head of bond and currency strategy at NatWest.

The bank is on holiday in August but some traders say it may take action on rates in September or October, after it returns to work.

The yen came under pressure yesterday after Moody's Investors Service said it had placed Japan's sovereign credit rating on review. But that failed to give European bonds the lift that would normally have been expected from such a move.

US TREASURY prices failed to sustain an early advance, despite a rise in the dollar towards the top of its month-long trading range against the yen.

The dollar's overnight bounce, lifting the US currency above Y141, came on the back of the Moody's action on Japan. That helped lift the 30-year bond nearly half a point.

With little other news to sustain the advance, however, the market returned to its recent listless mood.

By early afternoon, the long bond had fallen back to $106\frac{1}{32}$, a rise of $\frac{1}{32}$ on the day before, putting the yield at 5.68 per cent.

Shorter-dated issues were largely flat, with the five-year note unchanged at $99\frac{28}{32}$, yielding 5.469 per cent.

"As far as US Treasuries are concerned it's going to be as much a function of foreign exchange markets as anything else. I suspect it'll be the dollar/yen that should dictate direction for bonds in the next couple of days," said Jeremy Hawkins, at Bank of America.

UK GILTS were subdued amid concerns that UK government spending plans might require it to return to the markets with heavy borrowings.

Recent jitters over the possibility of another interest rate rise had evaporated, at least for now, analysts said.

Neil Parker, treasury economist at Royal Bank of Scotland, said gilts were unaffected by global bond influences yesterday and were looking to today's release of UK gross domestic product growth figures with some nervousness.

The September 10-year gilt future settled down 0.01 points at 108.03 in heavy volume of 60,000 contracts traded. In the cash market the spread between the benchmark gilt and bund contracts narrowed by one basis point to 133 points.

GERMAN BUNDS traded in a tight range with the Bundesbank's decision on interest rates attracting little attention. However there was some short-lived support from the Moody's decision on Japan, traders said.

The September 10-year bund future settled down 0.01 points at 109.03 in volume of 400,000 contracts traded in Frankfurt.

Simex set to steal Kloffe's thunder

By Sheila McNulty in Kuala Lumpur

Malaysia's futures exchange is likely to lose business when Singapore introduces a futures contract based on the performance of shares traded on the Kuala Lumpur Stock Exchange.

The Kuala Lumpur Options and Financial Futures Exchange (Kloffe) had a hard time generating interest when it started two years ago. Malaysians had difficulties with the new concept and it was hard to lure them from investing directly in shares while the boom was pushing prices higher.

Now, analysts say, investors are keen to put money in futures, where they can bet on how the Asian crisis will affect the KLSE's benchmark Composite Index, and make profits even as their share prices collapse.

The Singapore International Monetary Exchange (Simex) said in May it would develop and trade futures and options contracts based on the Dow Jones Malaysia and Thailand stock indices.

John Duggan, Kloffe chief operating officer, was disappointed at the time but the KLSE recently took over Kloffe to improve the management and administration of the futures exchange.

Mohamed Azlan Hashim, KLSE executive chairman, now says he welcomes the competition from the Simex, which plans to launch the KLSE futures contract by November.

However, analysts say Malaysia is likely to lose the contest. If investors are offered the same futures contract in Singapore and Malaysia, they will most likely trade in Singapore with its better regulatory framework.

US EXCHANGES CONSOLIDATION CONTINUES

CBOE and Pacific agree to merge

By Nikki Tait in Chicago

Consolidation among financial exchanges took another stride forward yesterday as the Chicago Board Options Exchange, the largest options market, and the Pacific Exchange, the third biggest options market in the US, announced they had agreed to merge.

Together, the two institutions will handle about 65 per cent of all US securities-based options trading, and about 80 per cent of options trading in individual stocks.

This will keep the combined organisation comfortably ahead of the American Stock Exchange, currently number two to the CBOE.

The Amex recently bolstered its options business by acquiring the Philadelphia Stock Exchange, in spite of a rival bid from the CBOE, and is also merging with the National Association of Securities Dealers.

Yesterday's agreement in principle between the CBOE and the Pacific Exchange follows three sets of negotiations in recent years. The deal is subject to approval from both memberships and will require a two-thirds vote in favour at the PCX.

Under the deal, the Pacific Exchange will keep a trading floor in San Francisco, while seats at the CBOE and the PCX will continue to trade separately.

The CBOE will support the PCX's plans to build a new trading facility in San Francisco's South of Market neighbourhood, and options issues will be allocated between the two floors.

In spite of the separate trading facilities, the combined entity will have a single board of directors and Bill Brodsky, the CBOE chairman, will be chief executive.

The PCX's equities trading business will not form part of the merged group in the medium term. Over the next 18 months, according to Robert Greber, PCX chairman, the aim will be to "find a viable mechanism for our members to trade outside this organisation".

Already, there have been rumours that this side of the Pacific Exchange could link up with either Nasdaq or other regional exchanges. Another suggestion is that the CBOE, plus the PCX, could eventually look to some form of consolidation with the giant New York Stock Exchange.

Mr Brodsky declined to comment on that possibility yesterday, saying the exchanges "had a lot on our plate now". However, he added: "That doesn't preclude conversations in the future."

Both institutions stressed the consolidation was being driven largely by the pace of technology change, estimating that by combining their efforts on this front, they could save around \$80m over the next seven years.

Although both retain trading floors, they are already fairly automated, with 80 per cent of the CBOE's order inflow coming electronically. At the PCX, the figure is even higher on the equities trading side, but only about 20 per cent in options.

Italy in 30-year sterling issue

INTERNATIONAL BONDS

By Jeremy Grant and Edward Luce

The sterling sector kicked into life yesterday with long-dated issues from the Republic of Italy and Anglian Water, both reflecting growing interest among European institutions in the higher-yielding UK currency.

Italy made its first return to the sector since 1989 with a £300m, 30-year bond that was designed to broaden its investor base.

Issuers have recently started taking advantage of the UK's decision to cut back on government funding through the bond market. That has seen supply in the longer-dated sector become scarce and the 30-year gilt has been expensive for many investors as a result.

Lead manager Barclays Capital said Italy had hoped to offer a cheaper alternative. It was also important for the issuer to tap into the UK investor base ahead of possible UK membership of European monetary union.

"They [Italy] acknowledge that the UK investor base will play an important role in the future," an official said.

About 60 per cent of the paper was taken up by UK institutions and the rest went to continental European investors.

ANGLIAN WATER's £200m offering was the latest in a series of utility bonds in the sterling sector and was priced in line with a similar-dated bond issued by Northumbrian Water.

The 25-year offering, priced at 88 basis points over the 2021 gilt, was Anglian's third bond and carried its longest maturity to date.

Elsewhere, the SLOVAK REPUBLIC added to its five-year D-Mark offering with a DM200m issue.

The bond, which now totals DM1bn, is seen as an emerging market benchmark in the German currency.

"It has tightened in since it was first launched in the spring which is quite an accomplishment considering what has happened in Russia," said an official at Commerzbank, joint lead manager Nomura.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Parmalat Capital Finance	500	6.625	99.733R	Aug 2008	0.40R	+110(May08)	Barclays Capital
GECC(a)	200	5.75	99.812R	Apr 2004	0.275R	+24(5⅝%Jun03)	Paribas
BankWest‡	200	(b)	100.05	Aug 1999	0.07	-	Daiwa Europe
Banco Barclays e Galicia(c)	50	(c1)	99.795R	Aug 2006	0.75R	+425(May01)	Barclays Capital
D-MARKS							
Colt Telecom Group plc(d)	600	7.625#(i)	99.935	Jul 2008	2.75	+312½(Jul08)	Morgan Stanley Bank
Slovak Republic(f)	200	8.00	100.79R	May 2003	0.875R	+345(Apr05)	Commerzbank/Nomura
Telenor	200	4.25(i)	99.69R	Aug 2002	0.225R	+10(4¼%May02)	Warburg Dillon Read
STERLING							
Republic of Italy	300	6.00	98.595R	Aug 2028	0.45R	+49(6%-2028)	Barclays Capital
Anglian Water	200	6.625	98.825R	Aug 2023	0.625R	+88(8%Jun21)	Barclays/JP Morgan
Alliance & Leicester Grp Tsy	150	7.00	99.211R	Aug 2002	0.25R	+80(7%Jun02)	HSBC Markets
FRENCH FRANCS							
British Gas Intl Finance	2bn	5.125	99.22R	Aug 2009	0.45R	+40(j)	CDC Marchés/SG
Deutsche Finance	1bn	5.125	99.314R	Aug 2013	0.40R	+25(j)	Deutsche Bank Finance
ITALIAN LIRE							
SunAmerica Inst Funding(g)‡	100bn	(g1)	99.875R	Aug 2013	0.375R	-	Morgan Stanley DW
EUROS(e)							
Remy Cointreau(h)	150	10.00#	100.00R	Jul 2005	1.00R	+550(j)	BT Alex Brown
CANADIAN DOLLARS							
DePfa Bank	100	5.50	99.36R	Aug 2003	0.275R	+25(5%Sep02)	TD Securities

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with \$450m. Plus 120 days accrued. b) 3-mth Libor flat. c) Callable & puttable on 3/8/01 & 03 at par. c1) 9⅝% to 3/8/01, then 9¾% to 03, then 9¾%. d) Callable from 31/7/03 at 103.8125% falling ratibly to par. Equity clawback. Change of control put option. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Fungible with DM800m. Plus 69 days accrued. g) Callable on 19/8/03 at par. g1) 13% in yr 1, 6% in yrs 2-5, then 15% - 2 x 12-mth Libor. h) Callable from 30/7/02 at 105% falling ratibly to par. Equity clawback. i) Over interpolated yield. j) Long 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Jul 23	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.9421	6.26	+0.02	+0.17	-0.11	-0.04
	05/05	8.750	114.0710	5.56	-	+0.11	-0.06	-0.98
Austria	07/00	5.875	103.3700	4.06	-0.03	+0.17	+0.01	+0.10
	01/08	5.000	101.2400	4.83	+0.01	+0.02	-0.02	-0.71

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	104.38	105.00	-0.01	105.18	103.61	78,764	134,022
Dec	-	104.78	-0.01	-	-	-	22

LONG TERM FRENCH BOND OPTIONS (MATIF)

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE) DM250,000 100ths of 100%

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE) Lira 200m 100ths of 100%

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

UK

NOTIONAL UK GILT FUTURES (LIFFE) £50,000 100ths of 100%

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

US

US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

Ecu

ECU BOND FUTURES (MATIF) Ecu100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	-	103.98	-0.02	-	-	0	18

US CORPORATE BONDS

US INTEREST RATES

10 YEAR BENCHMARK SPREADS

EMERGING MARKET BONDS

INTERNATIONAL BONDS

Jul 23	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v. Govts
US DOLLAR								
EIB	02/07	5.750	AAA	108.3000	4.82	-	-0.02	+0.12
Spain	01/07	5.750	AA	108.2100	4.83	+0.01	-0.03	+0.13

UK BONDS

FTSE Actuaries Govt. Securities

UK GILTS PRICES

Other Fixed Interest

Yen gains on talk of Fed bill sales

MARKETS REPORT

By Simon Kuper

The yen rallied late yesterday on a rumour that the US Federal Reserve was helping the Bank of Japan to prepare an intervention for the Japanese currency.

Some traders said the Fed had sold Treasury bills on behalf of a foreign central bank. Many took this to be the Bank of Japan stocking up on dollars to sell in the market. Today the Liberal Democratic Party is due to elect its new president, expected to become prime minister later this month. If Keizo Obuchi, the frontrunner, wins the vote, there could be a run on the yen, and the Bank of Japan might intervene to counteract that. However, as 4CAST, the economic consultancy, noted, the bank is hardly lacking in dollars to sell as things stand.

Others said that if the Fed were indeed selling T-bills, it might be on behalf of the Bank of Canada. The Canadian dollar has been sinking steadily to ever new record lows, and it would be no surprise if the central bank decided to intervene for its currency, said Nick Parsons, foreign exchange strategist at Paribas Capital Markets in London. A rival rumour was that a US investment bank had been selling yen. With little hard news around and August approaching, trading was thin.

The yen had dropped earlier in the London day after Moody's, the rating agency, said it was reviewing Japan's credit rating. That hit Japanese stocks and dragged the yen down below Y142 against the dollar. But the yen recovered almost Y1 after the rumour of the Fed's T-bill sales emerged.

The yen closed in London Y0.3 down against the dollar at Y141.3. It has now lost Y2.4 in the last three days.

■ The D-Mark firmed late yesterday after the Bundesbank hinted that it might have to raise interest rates later this year in order to ward off inflation in the future Eurozone. As expected, the bank's council left German rates unchanged yesterday before disappearing on a four-week summer holiday. In late US trading the D-Mark stood at DM1.786 to the dollar, 0.5 pfgs up on Wednesday's London close.

Carl Weinberg, chief economist at High Frequency Economics in New York, warned that Russia's debt problems may yet unsettle the D-Mark. "The perception in the market right now is that Russia is fixed," he said. The International Monetary Fund agreed this week to pay Russia $4.8bn of an $11.2bn support loan, and ABN-Amro said that took Russian foreign exchange reserves to $18.8bn, a level last seen at the end of 1997.

However, Mr Weinberg said no one knows whether Russia has enough to pay its debts that become due in August, let alone for later months. "The economy is hardly getting any better and their debt profile is huge," he said. "The implications of a Russian meltdown would be a flow out of European assets." ABN-Amro is cautious too.

■ Every now and then the currency market embraces the Great Man Theory of History: that one person can change the course of events. The debate ahead of today's LDP election in Japan is a case in point. Market strategists said that if Mr Obuchi were to win, Japan's economy would remain stuck, whereas if Seiroku Kajiyama won, it might start to move.

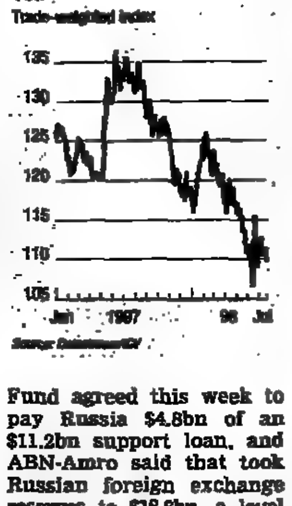
Desmond Lachman, head of emerging markets research at Salomon Smith Barney in New York, says that in real life things do not work like that. Japan's problems are deep-seated. Whoever is elected will not create an economic boom any time soon. It is foolish to expect a new dawn now, says Mr Lachman.

As "dawnist" hopes diminish, the yen could suffer. That could hit other Asian currencies, says Mr Lachman, because their economic fundamentals have been worsening. "Asian recessions are deepening, so you don't know how long governments are going to hold on to orthodox policies."

■ Today could be the busiest day of a quiet week. The market can grapple with the vote in Japan, the UK's gross domestic product figures for the second quarter – expected to show a sharp slowdown – and, perhaps, a rate cut by the Bank of Italy.

Yen

Trade-weighted index



Source: Datastream/ICV

■ POUND IN NEW YORK

Jul 23	— Latest —	— Prev. close —
£ spot	1.6500	1.6425
1 mth	1.6474	1.6399
3 mth	1.6418	1.6341
1 yr	1.6184	1.6108

■ OTHER CURRENCIES

Jul 23	£	$
Czech Rp	51.6720 - 51.7537	31.4580 - 31.4860
Hungary	356.280 - 356.825	215.900 - 217.100
Iran	[illegible]	[illegible]
Kuwait	0.5039 - 0.5046	0.3068 - 0.3070
Peru	4.7882 - 4.7950	2.9150 - 2.9180
Poland	[illegible]	[illegible]
Russia	10.2927 - [illegible]	[illegible]
U.A.E.	6.0331 - 6.0371	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Jul 23		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.7235	+0.0521	122 - 348	20.7368	20.6426	20.6517	4.2	20.5085	4.1	19.955	3.7	103.3
Belgium	(BFr)	60.7455	+0.132	[illegible]	60.7968	60.5230	[illegible]	4.8	60.1307	4.0	58.4734	3.7	[illegible]
Denmark	(DKr)	11.2253	[illegible]	[illegible]	[illegible]	11.1806	11.1932	3.4	11.1265	3.5	10.8481	3.4	105.3
Finland	(FM)	8.9533	+0.023	444 - 622	8.9622	8.9190	8.9225	4.2	8.8514	4.1	[illegible]	3.8	81.2
France	(FFr)	9.8746	+0.0271	712 - 780	9.8798	9.8080	9.8408	4.1	9.7731	4.1	9.5922	3.6	100.1
Germany	(DM)	2.9455	+0.0078	439 - 470	2.9474	2.9331	2.9354	4.1	2.916	4.1	2.8344	3.8	104.3
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 23		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.6125	+0.0134	094 - 155	12.6230	[illegible]	12.589	2.2	12.5449	2.1	12.3829	1.8	103.5
Belgium	(BFr)	36.9700	+0.03	[illegible]	36.9950	36.9000	36.905	2.1	36.7795	2.1	36.265	1.9	102.7
Denmark	(DKr)	6.8318	+0.0075	[illegible]	6.8377	6.8136	6.8232	1.8	6.8057	1.5	6.7323	1.5	104.9
Finland	(FM)	5.4491	+0.0081	[illegible]	5.4526	5.4351	5.4388	2.2	5.4282	2.1	5.3448	1.9	81.2
France	(FFr)	6.0098	+0.0076	[illegible]	6.0145	5.9973	5.9998	2.2	5.9779	2.1	5.8888	1.9	105.8
Germany	(DM)	1.7925	+0.0019	[illegible]	1.7940	1.7898	1.7893	2.2	1.783	2.2	1.7585	1.9	104.1
[illegible]													

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
95625	0.050			0.125		
95750	0.020	0.360	0.360	0.220	0.020	0.040
95875	0.010			0.335		

Est. vol. total, Calls 1150 Puts 2000. Previous day's open int., Calls 110888 Puts 113500

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	Dec	Mar	PUTS Sep	Dec	Mar
92125	0.085			0.085		
92250	0.030	0.135	0.285	0.155	0.200	0.205
92375	0.015			0.285		

Est. vol. total, Calls [illegible] Puts 3410. Previous day's open int., Calls [illegible] Puts [illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	•Smith & Williamson	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	Sun Bank	7.50
•Henry Ansbacher	7.50	•Robert Fleming & Co	7.50	TSB	7.50
Banco Bilbao Vizcaya	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Cyprus	7.50	•Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of Ireland	7.50	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of India	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Bank of Scotland	7.50	Hongkong & Shanghai	7.50		
Barclays Bank	7.50	Investec Bank (UK) Ltd	7.50	• Members of London Investment Banking Association	
Brit Bk of Mid East	7.50	Julian Hodge Bank	7.50		
•Brown Shipley & Co Ltd	7.50	•Leopold Joseph & Sons	7.50		
Citibank NA	7.50	Lloyds Bank	7.50		
Clydesdale Bank	7.50	Midland Bank	7.50		
The Co-operative Bank	7.50	NatWestminster	7.50		
Coutts & Co	7.50	•Rea Brothers	7.50		
Cyprus Popular Bank	7.50	Royal Bk of Scotland	7.50		
Duncan Lawrie	7.50	Scottish Widows Bank	7.50		
		•Singer & Friedlander	7.50		

Signs of renewed Zambia copper talks

By Gary Mead

Talks are thought to have resumed between some of the parties over the aborted sale of Zambia's two most important copper mines, the Nkana and Nchanga mines, part of state-owned Zambia Consolidated Copper Mines.

Kafue, the international consortium bidding for the mines, collapsed last month after the Zambian government rejected Kafue's offer worth $1.1bn for 94 per cent of the two mines.

The consortium comprised Noranda, the Canadian natural resources group; Phelps Dodge, the US copper producer; Avmin, the South African mining group; and the UK's Commonwealth Development Corporation, the finance institution.

The talks collapsed after 15 months because the Zambian government wanted a bigger cash element included in the deal.

However, one of the parties involved in the Kafue consortium told the FT yesterday that, although it was not public knowledge that there has been a resumption of talks, "we think there has been".

Zambian sources reported this week that Edith Nawakwi, Zambia's finance minister, had travelled to Canada and the US to meet representatives from Noranda and Phelps Dodge.

Nkana and Nchanga account for about two-thirds of the output of ZCCM, which is responsible for 80 per cent of Zambia's foreign earnings and 25 per cent of its gross domestic product.

The main elements of Kafue's final offer, made on May 28, were an initial cash payment to ZCCM of $131m; the assumption of $35m of long-term debt; copper and cobalt price participation agreements totalling $150m; an initial working capital investment of $76m; and a five-year capital investment programme totalling $708m.

According to copper industry analysts, it is unlikely that the consortium will increase its offer, as global copper prices are much more depressed than in June and the threat of a long-term oversupply of copper is much greater, given the economic slowdown currently affecting Asia.

However, there is a degree of urgency on the part of the Zambian government, which is keen to restore the country's copper production to somewhere near the 1970 peak of 750,000 tonnes, from less than half of that today.

Diamond miners find fresh prospects in Mauritania

Unusually, many gem-bearing kimberlite deposits in the north of the country are on the surface, writes **Kenneth Gooding**

Luc Rombouts is explaining why he has been exploring for diamonds in Mauritania. He says the world's big diamond mines recover the gems from a volcanic rock called kimberlite.

These diamond-bearing kimberlite volcanoes are in the oldest parts of the continents and all the kimberlites worth mining so far are located on Archean cratons, which are the oldest parts of the earth's crust, formed more than 2.5bn years ago.

Most Archean cratons have been explored for diamond-bearing kimberlites, the Slave craton of northern Canada being the most recent success story. BHP of Australia and Rio Tinto, the Anglo-Australian group, will shortly produce the first gem diamonds there.

In northern Mauritania there is a craton – the Reguibat – of Archean age but until recently it has not been explored for diamonds.

Mauritania is twice the size and has twice the population (2.4m) of Botswana, the biggest gem diamond producer by value. It has a similar climate and much of the country is desert.

Mr Rombouts says exploring for diamonds is easier in Mauritania because, whereas most kimberlite volcanoes are buried by up to 60 metres of Kalahari sands, many in Mauritania are on the surface.

Mr Rombouts heads the exploration team for Rex Diamonds, a Toronto-listed company that mines diamonds in South Africa and is searching for more stones elsewhere in Africa.

It is not the only company exploring in Mauritania. Ashton Mining, the diamond arm of Malaysian Mining Corporation, is also there. La Source, part of Normandy Mining, Australia's biggest gold producer, is exploring for gold, and a number of other Australian groups have won licences.

N'Gaide Lamine Kayou, Mauritania's minister of mines and industry, said recently 19 prospecting licences for gold had been issued, 12 for diamonds, and 12 for other minerals – including iron, copper, salt and phosphate.

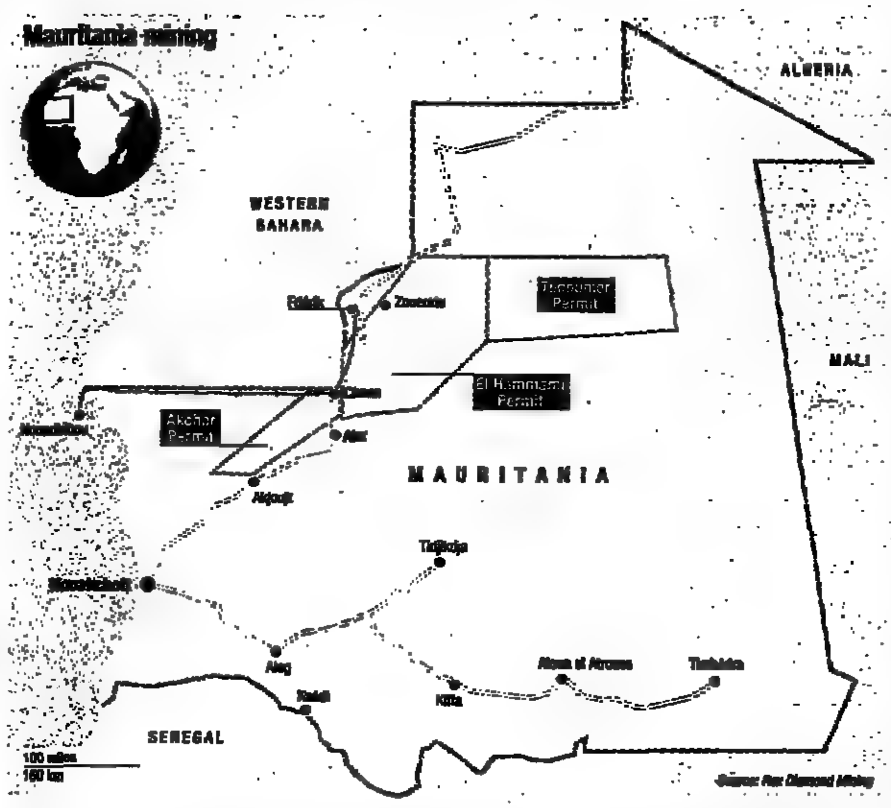
The West African Islamic republic has been a democracy since 1992 and Mr Kayou says that with some guidance from the World Bank, it has since then, "made every endeavour to promote the mining industry and create favourable conditions for investment by the private sector".

The country is no stranger to mining. Iron ore, about 12m tonnes a year of which is mined by the State Company for Industry and Mining (SNIM), remains a big source of income, accounting for about 11 per cent of gross national product and 40 per cent of exports.

Unlike other African countries, Mauritania is not using its state-owned mines simply as a cash provider. Mr Kayou says SNIM invested $43m last year and will invest $72m in 1998 on expansion, particularly pelletisation projects. Development for other minerals is still at a preliminary stage.

The government's determination to develop the mining sector has received approval from the industry.

"In terms of investment, Mauritania now offers a number of incentives, political and financial stability, an adequate legal framework, liberal economic policies, tax incentives and exemptions, and a readily trainable labour force," says Mining Journal in its annual review of African mining.



SNIM's iron ore mine at Zouerate is a bonus for Rex. Ore is sent by rail to the Atlantic port of Nouadhibou, 650km west, and the railway line follows the spine of the Reguibat craton where Rex is exploring. On the return trip the rail cars bring supplies, food and water to Zouerate, a town of 40,000 built to sustain the mine.

Rex started exploring a year ago with airborne magnetic surveys. Kimberlites are often weakly magnetic and sometimes can be detected by these surveys.

Mr Rombouts says in northern Mauritania it was decided to fly over the Taoudeni Basin and the Archean "basements" following lines 400 metres apart. "The philosophy being that kimberlites tend to occur in clusters and that picking up at least one anomaly may lead the way to finding more individual kimberlites within a cluster after detailed follow-up work."

Rex has also been on the ground sampling for minerals such as garnets and ilmenites, which are more abundant than diamonds. They can show a kimberlite is close and are dubbed "indicated minerals".

So far more than 1,200 samples have been taken, each eventually reduced to less than a kilogram and sent overseas for examination – each "indicator" grain is analysed by electron microprobe.

Oil lower despite fall in Iran exports

MARKETS REPORT

By Gary Mead

Oil prices showed no sign of eluding the overwhelming weight of global inventories yesterday.

News that Iran's exports of crude oil have been reduced by 325,000 barrels a day in July was shrugged off by traders. In later trading the September Brent crude oil contract on the International Petroleum Exchange was 12 cents lower at $12.75 a barrel.

With US stocks of crude oil at 340m barrels and distillate fuel stocks at their highest summer level since the Gulf War, there is little immediate prospect of any rally in prices.

Analysts now expect little upward movement before October; and that is dependent upon the Organisation of Petroleum Exporting Countries sticking to its promised production cuts.

On the London International Financial Futures Exchange, cocoa futures were again range-bound, the September contract closing just £2 higher at £1,075 a tonne.

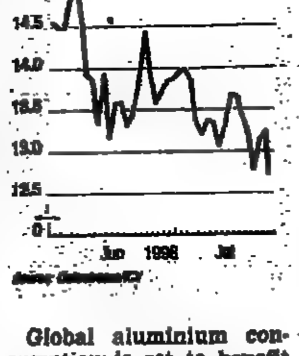
Traders reported a slight resurgence of buying interest but the market continues to be clouded by reports of abundant rainfall in west Africa, which will tend to produce greater than expected yields.

In its daily commodity report, broker GNI said if the high rainfall persisted until the end of the month "there is little reason to expect cocoa to rally from here for the next six months, and it could possibly dip to £900".

Elsewhere on Liffe, coffee futures were also quiet. The September contract ended $4 higher at $1,575 a tonne.

On the London Metal Exchange, copper trading was again dull, the three-month price closing unchanged at $1,710 a tonne.

Zinc performed rather better, finishing at $1,099.50 a tonne, up $30.50, but trade sellers came into the fray above $1,100 and prevented it from climbing further. Stock declines in LME warehouses assisted not only zinc but also aluminium, which closed $15.50 a tonne higher at $1,388.50.



Global aluminium consumption is set to benefit more than other base metals from any economic upturn, according to analysts.

Anthony Bird and Associates said: "Aluminium's short-term competitive position is excellent. That means that when a recovery finally arrives, aluminium demand should rise strongly. We expect this to happen from late-1999 onwards."

Bird forecasts surpluses of aluminium this year and next, with about 500,000 tonnes of metal in undisclosed stocks. But it also expects a "new supply-demand deficit in 2000. In 2001 the deficit will become much heavier, and the market will start to become tight."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1360-61	1382-83
Previous	1345.5-6.5	1369.5-70.0
[illegible]	[illegible]	[illegible]

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	293.3	-0.9	-	-	-	-
Aug	293.7	-0.9	295.1	292.9	20,581	67,911
Oct	296.1	-0.8	296.8	295.0	1,642	8,053
Dec	298.3	-0.8	299.2	297.5	7,977	29,339
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

GRAINS AND OIL SEEDS

WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	75.00	-	75.25	75.00	64	43
Sep	69.50	-	69.25	[illegible]	10	160
Nov	71.75	+0.25	71.75	71.25	70	3,643
Jan	73.50	-	73.50	73.25	30	1,882
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SOFTS

COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1047	+7	1048	1045	12	35
Sep	1075	+2	1080	1066	1,019	38,223
Dec	1105	+2	1108	1095	3,019	41,518
Mar	1129	+2	1130	1110	309	37,611
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	61.175	-0.575	61.700	60.775	7,281	31,508
Oct	61.950	-0.700	62.650	61.400	5,588	32,133
Dec	63.575	-0.350	63.900	63.050	2,387	12,846
Feb	65.425	-0.425	65.750	65.000	1,262	6,525
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PRECIOUS METALS

[illegible]

ENERGY

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

[illegible]

PULP AND PAPER

PULPEX CMLT ($ per 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	446.00	-	446.00	446.00	10	479
Dec	467.50	-	-	-	-	280
Total					10	759

FUTURES DATA

All futures data supplied by CMS.

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

Reuters (Base: 18/9/31 = 100)

Jul 23	Jul 22	month ago	year ago
1550.0	1535.4	1580.3	1909.6

CRB Futures (Base: 1967 = 100)

Jul 22	Jul 21	month ago	year ago
208.10	207.88	-	-

GSCI Spot (Base: 1970 = 100)

Jul 22	Jul 21	month ago	year ago
146.95	147.07	155.03	182.76

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,460	to	491,175
Aluminium alloy	+729	to	[illegible]
Copper	1,450	to	254,800
Lead	-725	to	107,250
Nickel	+252	to	61,302
Zinc	-1,425	to	374,525
Tin	+235	to	6,113

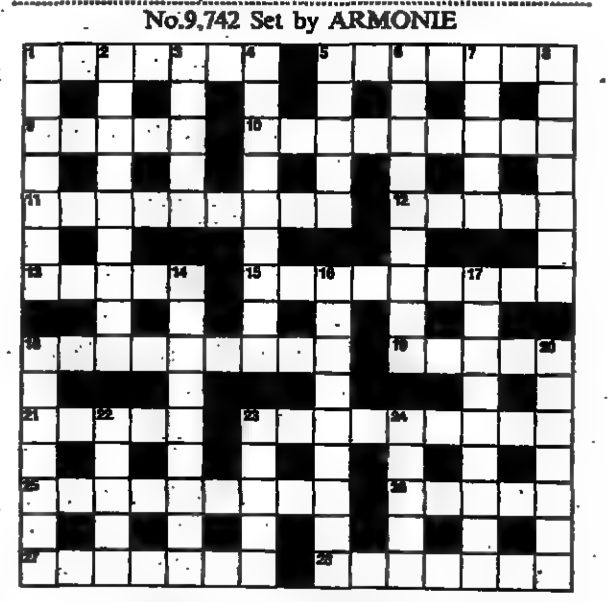
Wool from Mallett & Co

The market was tested by an auction of British wool in Bradford on Wednesday, but only 40 per cent of the offering of over 2.9m kg found buyers. Even that percentage was achieved as a result of negotiation after the auction itself was over. The British Wool Marketing Board held back the rest at reserves of its own setting. Reluctance to buy was partly the result of availability of cheaper wool from New Zealand. The wool market is assessed as gloomy. New orders are extremely difficult to get and competition has probably never been so intense.

JOTTER PAD

CROSSWORD

No.9,742 Set by ARMONIE



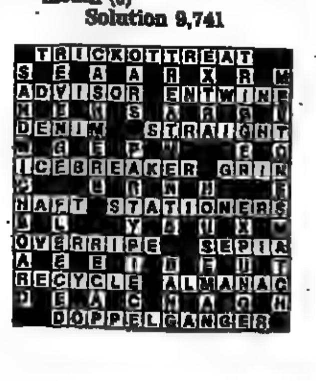
ACROSS

1 To fool about in spy network is a bloomer (7)
5 Girl one found in volume of great work (7)
9 A course served in Nova Scotia (5)
10 Virginia's deceptively lenient with sweetheart (9)
11 Maybe settle beside a new church (9)
12 Indentation applied to climber's equipment (5)
13 Uproar about island airport? (5)
15 Stimulant given to a patient of this type (5,4)
18 Orchestra members cried, being exposed to 20 (9)
19 Inspect a couple of cars (5)
21 Without starting to fight, submit to the cutoff (5)
23 Carpet the street in blossom (9)
25 Soldier holds dishes containing eastern colouring matter (9)
26 Given church land bishop bursts into song (5)
27 A function where Hazel gets a man (7)
28 Withdraw soldier's dissertation (7)

DOWN

1 This will help prisoner grapple with gradient (7)
2 Agree to one playing instrument (9)
3 Draw dismasted ship (5)
4 Coming upon river enterprise (9)
5 Student in pothole is to give birth in beastly fashion (5)
6 Sleep in a container on a mountain (9)
7 Having no money family is thrown in the street (5)
8 Prefers to be in church to carry out absolution (7)
14 Former Welsh rite is restored (9)
16 Chicken hides under sink in commercial novel (9)
17 Classical female – named Dora, oddly enough (9)
18 Golf club rebuffed print maker (7)
20 Screen protects European representative from storm (7)
22 Scholar has to study philosopher (5)
23 Sovereign tucking into buffet gets belly-ache (5)
24 A number appreciate vermouth (5)

Solution 9,741



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هكذا من الاصل

FT MANAGED FUNDS SERVICE

Oil lower despite fall in Iran exports

[illegible]

CROSSWORD

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (FSA RECOGNISED)

[illegible]

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Barclays Diversified Portfolio (z)

Barclays Inv Funds (Luxembourg)

CMI Asset Management (Luxembourg) SA

HSBC Investment Funds Luxembourg SA (u)

Henderson Management SA (u)

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

OFFSHORE INSURANCES

هكذا من الاصل

هكذا من الاصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

HOUSEHOLD GOODS & TEXT - Continued

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AIM

AIM - Continued

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these stocks are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred

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LONDON STOCK EXCHANGE

Profits warnings pile more pressure on equities

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A substantial two-way pull developed in London's equity market, with the bears just managing to emerge triumphant over the bulls and the FTSE 100 finishing a ragged, tense session with a minor loss on balance.

The market's woes still stemmed from the threat of a rise in US interest rates as the worrying comments on US inflation from Alan Greenspan, chairman of the US Federal Reserve, continued to plague Wall Street. The Dow Jones Industrial Average finished 60 points off overnight but took a substantial dive after London closed yesterday, falling more than 120 points.

But what really sent the London market reeling early yesterday was a sequence of profits warnings from some of the UK market's leaders. To the fore were ICI and Boots, and there was more bad news on the profits front from some of the second-liners and smallcaps stocks.

But as the pressure was seen to lift on the leading stocks, where the rally in the market tended to be concentrated on the financials, specifically the banks, there was an intense bout of sell-side pressure on the second-liners and to a slightly lesser degree the smallcaps.

As the curtain came down on a market still struggling after two days of exceptionally heavy losses, the FTSE 100 was left with a 13.4 decline at 5,976.2.

That relatively sedate finish to the day masked some erratic movements. The index tumbled more than 64 points in mid-morning as worries about US interest rates and the impact of the profit warnings from ICI and other leading stocks combined to unnerve the market.

But the real downside pressure impacted on the second-liners where the FTSE 250 index, which resisted much of the downside pressure that hit the 100 index on Wednesday, reeled back to finish the day a net 86.4 or 1.5 per cent off at 5,572.9, the day's lowest level.

Similarly, the FTSE SmallCap was always under pressure and finished the day only a fraction above its lowest level. It closed a net 20.2 off at 2,550.0.

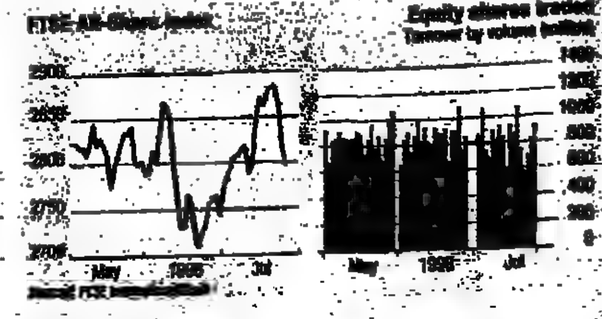
The shift in market sentiment, around midday, was triggered, according to dealers, by Nationwide policyholders, who voted narrowly to retain mutual status. That move saw a sudden burst of buying interest across the banking sector.

Specialists said the Nationwide decision had taken some of the competitive threat out of the market. Dealers said fund managers had been putting cash aside to buy into the Nationwide and with that threat now largely dissipated they had to re-invest the cash into other banking stocks.

The sector was also being driven ahead by the prospect of substantial dividend increases as the results season unfolds.

Northern Rock's results were well received and dealers said the market was pricing in some very big dividend increases, notably from Lloyds TSB, the market's most highly rated bank and where a 25 per cent increase in the interim payment is being talked about.

Turnover reached 926.1m shares.



Indices and ratios

FTSE 100	5976.2	-13.4
FTSE 250	5572.9	-86.4
FTSE 350	2876.0	-13.4
FTSE All-Share	2797.60	-13.56
FTSE All-Share yield	2.81	2.79
FT 30	3844.5	-27.7
FTSE Non-Fins p/e	23.12	23.30
FTSE 100 Fut Sep	5980.0	-38.0
10 yr Gilt yield	5.90	5.90
Long gilt/equity yld ratio	2.08	2.10

Best performing sectors

1 Gas Distribution +1.5
2 Life Assurance +1.4
3 Insurance +1.0
4 Utilities +0.5
5 Retailers General +0.5

Worst performing sectors

1 Chemicals -8.1
2 Electronic & Elect Equip -3.0
3 Gen Industrials -2.9
4 Engineering -2.3
5 Engineering Vehicles -2.3

ICI down on profits warning

COMPANIES REPORT

By Joel Kibazo and Jeffrey Brown

Market specialists were busy looking for the next big profits warning after ICI unnerved the market with a warning on second half figures.

The international chemicals group said the economic problems in Asia, strong sterling and the downturn in bulk chemicals is likely to lead to lower second-half profits.

The news came as the company unveiled interim pre-tax profits before exceptionals of £197m, up from £160m last time, and just a month after analysts slashed profit forecasts following a second-quarter trading update.

Telephone briefings with analysts had left the market expecting full-year profits of £500m for the bulls of the stock and £400m for the pessimists.

Yesterday's statement proved even the bears had been wildly optimistic and triggered the second wave of profit downgrades in four weeks. The company's failure to achieve a reduction in gearing through disposals was an additional concern in an already nervous climate.

The shares tumbled 131 or 14.4 per cent to 780p, by far the worst performer in the FTSE 100. Volume was also heavy, reaching 14m by the close. CSFB, joint broker to ICI, was said to have predicted the shares could fall as low as 750p and urged clients to avoid the stock.

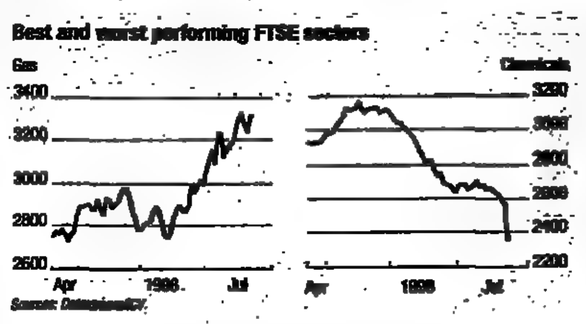
But long-term critic Martin Evans at Sutherlands is even more negative and he believes the stock could fall to 700p. His current year profits forecast was at the bottom of the range and yesterday he chopped another £100m off that figure to arrive at a new lowly estimate of £300m.

He said: "An awful sense of *déjà vu* is creeping into the market perception of ICI. Despite the radical restructuring of the last year, the volatility of the earnings is reminiscent of the problems seen in the last two trade cycles."

In sympathy, BOC fell 20 to 840p, Inspec surrendered 20 to 236½p while Kalon gave up 8¼ to 112p. Also in chemicals, BTP, which also talked about the impact of Asia at its annual meeting, fell 36¼ to 476½p.

The company said that it was proceeding with the sale of its safety equipment division and has received a number of approaches.

Best and worst performing FTSE sectors



Dealers expect the former building societies will be the main beneficiaries of yesterday's decision by Nationwide Building Society members against the company's conversion to bank status.

Specialists said institutions had held on to funds to invest in Nationwide in the event of the building society converting itself into a retail bank. Those funds were now expected to find a home in the former building societies. In a sector that has been under pressure in recent sessions, shares in Abbey National hardened 32 to £10.93 while Alliance & Leicester improved 17 to 860p. Woolwich gained 8 to 334p while Lloyds TSB, also active in the mortgage market, rose 22 to 893p.

Rocky Northern

Shares in Northern Rock slipped back as analysts gave a mixed reaction to the company's interim results, dealers said. They closed 5½ off at 526½p.

Panmure Gordon was said to have advised clients to sell the stock or switch into the Royal Bank of Scotland. SG Securities is believed to rate the stock a "weak hold". However HSBC Securities was reported to be positive on the stock while ABN Amro was said to have upgraded its recommendation to "buy" from "undervalued". RBS gained 31 to £10.40.

A downbeat note from Merrill Lynch advising investors to avoid UK manufacturing stocks added to the bad news already piling up at British Steel following Wednesday's annual meeting.

British Steel had warned that business in the US and Europe could be hit later this year by cheap imports from Asia. The shares came off 6 per cent yesterday, tumbling 8¼ to 128p in 17m traded, the heaviest Footsie volume of the day.

The news from France that Aerospatiale is to merge with the defence side of Lagardère pushed UK defence sector consolidation back to the top of some investors the agenda.

The deal is widely seen as opening the way to the long-mooted merger of British Aerospace, Aerospatiale and Daimler-Benz Aerospace. BAe rose 16 to 486p.

Elsewhere among engineers, Cookson came in for a renewed downgrade after dire interim results. Henderson Crosthwaite cut its forecasts for the second time in two weeks, moving down to pre-tax profits of £170m for this year from £185m and suggesting that "the shares could drift lower".

The stock, heavily traded in 16m shares, ended off 20 at 180½.

Among transport stocks, BAA added 3½ to 679p ahead of Monday's first quarter results with traders said to be pushing the utility-style defensive qualities of the shares. Ocean Group, which puts out interim figures next Thursday, lost 23 to 722½p.

Stagecoach, hit by a broker downgrade at the start of the week, rallied modestly, adding 8 to £12.55p, compared to the £13.90p that the stock stood at last Friday.

The bearish broker, thought to be BT Alex Brown, was said to have switched from "buy" to "hold" given five years of strong outperformance for the shares which were floated in the spring of 1993 at 112p.

Building materials shares took a couple of direct hits yesterday. A top broker cut its earnings estimates for RMC and there was bad news for the sector further down the size scale in the shape of a profits warning from Lilleshall.

Goldman Sachs reduced earnings forecasts for RMC by 3.5 per cent for this year and by almost 5 per cent for 1999. At the close of a busy session, the shares were 13 lower at 922p. Blue Circle came off 5 at 329p.

Lilleshall fell 24¼ to 69½p after warning of weak profits for this year as a result of disappointing trading in windows and conservatories. BPB shed 19 to 328p.

Oil giant British Petroleum moved against the market trend adding 6 to 846½p as JP Morgan, which has initiated coverage of the stock, urged investors to "buy" the stock. Analysts at the investment bank set a 12-18 month price target of £10.50.

FT 30 INDEX

	Jul 23	Jul 22	Jul 21	Jul 20	Jul 17	Yr ago	*High	*Low
FT 30	3844.5	3895.2	3953.6	3984.0	3982.2	3075.5	3984.0	3810.3
Ord. div. yield	2.82	2.80	2.74	2.72	2.73	3.57	4.22	2.72
P/E ratio net	23.74	23.92	24.46	24.62	24.58	18.14	25.41	15.80
P/E ratio nil	23.65	23.83	24.36	24.52	24.48	17.95	25.19	15.71

FT 30 since compilation: high 3993.3 [illegible]; low 49.4 [illegible]. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3872.2	3827.8	3822.8	3822.5	3852.4	3834.8	3838.8	3844.8	3872.2	3818.3

STOCK MARKET TRADING DATA

	Jul 23	Jul 22	Jul 21	Jul 20	Jul 17	Yr ago
SEAQ bargains	57,526	56,765	56,690	59,283	58,534	43,727
Equity turnover (£m)†	-	3071.1	2369.2	2562.4	2764.5	3606.4
Equity bargains†	-	43,913	46,840	51,309	50,394	43,589
Shares traded (m)†	-	686.7	589.5	623.4	654.8	
Total market bargains‡	-	57,239	58,329	61,700	67,468	-
Total turnover (£m)‡	-	4052.4	3364.5	3357.9	3999.7	-
Total shrs traded (m)‡	*926.1	932.3	766.3	782.1	901.7	-
Tradepoint turnover (£m)	28.9	130.4	18.8	13.6	25.7	3.0
Tradepoint shrs traded(m)	9.5	19.0	5.9	3.5	8.4	0.7

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	319	Total Highs	24	Total contracts	39,129
Total Falls	1,342	Total Lows	132	Calls	21,073
Same	1,340			Puts	18,056

July 23 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	6045.0	5980.0	-38.0	6060.0	5950.0	20922	182235
Dec	6120.0	6054.0	-37.0	6120.0	6050.0	1110	4151
Mar		6130.0	-38.0			0	870

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		5650.0	-80.0			0	3840

FTSE 100 INDEX OPTION (LIFFE) [illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) [illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

Regional Indices

Africa (10)	1005.22	-2.6	1084.11	1440.[illegible]
Australasia (7)	1177.38	-3.1	1215.58	1479.[illegible]
North America (10)	953.85	+0.1	952.54	1360.[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jul 23	Day's chge%	Jul 22	Jul 21	Year ago	Gross yld%	Net yld%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5976.2	-0.2	5989.6	6132.7	4862.9	2.75	2.32	2.03	22.45	63.10	2617.15
FTSE 250	5572.9	-1.5	5659.3	5703.7	4478.4	2.98	2.50	2.00	21.18	65.03	2396.42
FTSE 250 ex Inv Tr	5612.0	-1.6	5703.8	5746.2	4476.2	3.05	2.58	2.08	19.95	68.14	2422.70
FTSE 350	2876.0	-0.5	2889.4	2948.9	2333.3	2.79	2.35	2.02	22.21	40.95	2573.36
FTSE 350 ex Inv Tr	2879.1	-0.5	2892.5	2953.5	2334.2	2.80	2.37	2.03	21.97	40.80	1321.81
FTSE 350 Higher Yield	2786.5	-0.8	2811.8	2853.9	2267.2	3.78	3.21	1.93	17.16	51.82	2133.02
FTSE 350 Lower Yield	2966.7	-0.1	2970.0	3047.1	2404.5	1.98	1.67	2.16	29.09	31.89	2157.13
FTSE SmallCap	2550.02	-0.8	2570.23	2589.17	2187.60	3.15	2.55	1.89	21.13	36.25	2223.98
FTSE SmallCap ex Inv Tr	2529.15	-0.7	2548.11	2564.09	2146.85	3.36	2.74	1.96	18.74	38.05	2228.70
FTSE All-Share	2797.60	-0.5	2811.16	2867.81	2278.04	2.81	2.36	2.01	22.14	38.54	2541.42
FTSE All-Share ex Inv Tr	2804.10	-0.5	2817.54	2874.86	2278.50	2.83	2.38	2.03	21.78	38.93	1310.55

FTSE Actuaries Industry Sectors

	Jul 23	Day's chge%	Jul 22	Jul 21	Year ago	Gross yld%	Net yld%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	4378.28	-0.1	4382.84	4429.99	4702.48	3.47	3.00	1.72	20.83	74.43	2014.24
12 Extractive Industries(6)	2794.20	-7.3	[illegible]	[illegible]	4095.82	4.99	4.58	2.05	12.17	78.82	881.90
15 Oil, Integrated(4)	4941.10	+0.2	4930.15	4979.75	4959.67	3.41	2.92	1.64	22.32	79.87	2338.04
16 Oil Exploration & Prod(12)	2886.57	-2.0	2946.79	2996.79	3794.73	1.97	1.63	1.98	32.03	33.41	1794.37
20 GEN INDUSTRIALS(216)	2045.04	-2.9	2106.75	2143.17	1881.98	3.34	3.12	2.28	15.45	34.98	1204.05
21 Construction(38)	1489.21	-1.5	1508.75	1522.29	1339.29	[illegible]	[illegible]	2.73	15.77	21.82	1327.48
22 Building Matls & Merchs(28)	1688.81	-2.1	1704.41	1736.19	1794.91	4.41	3.64	2.00	14.18	39.26	813.44
23 Chemicals([illegible])	2358.56	-8.1	2565.42	2589.41	2464.53	3.97	3.88	1.63	17.22	46.37	1209.39
24 Diversified Industrials(7)	1348.48	-1.0	1361.51	1380.77	1316.90	4.29	3.98	2.11	[illegible]	28.72	632.57
25 Electronic & Elect Equip([illegible])	2740.71	-3.0	[illegible]	[illegible]	2012.41	2.76	2.24	1.87	24.22	22.72	1510.98
26 Engineering([illegible])	2678.52	-2.3	2742.33	2793.18	2489.17	3.55	3.15	2.48	14.20	48.55	1734.32
27 Engineering, Vehicles(10)	3927.72	-2.3	4013.46	4195.19	2792.85	2.27	2.06	3.34	16.45	43.88	2165.46
28 Paper, Pckg & Printing(22)	2137.32	-1.3	2165.81	2169.75	1899.66	4.18	3.74	2.38	12.65	49.27	967.77
30 CONSUMER GOODS(91)	5902.83	-0.7	[illegible]	6089.82	4739.73	2.53	2.20	1.79	27.59	78.14	2387.40
32 Alcoholic Beverages(6)	4072.72	-0.2	4080.09	4162.23	3419.25	3.33	2.82	1.60	23.42	68.19	1598.04
33 Food Producers(23)	4100.88	-0.9	4139.48	4197.89	3036.71	2.56	2.18	2.06	23.58	60.16	1893.40
34 Household Goods & Texs(24)	3211.27	+0.2	[illegible]	3221.84	3085.18	[illegible]	[illegible]	2.05	17.97	38.57	1358.22
36 Health Care(13)	2541.87	-1.8	2589.36	2615.34	2179.95	1.97	1.61	2.30	27.86	31.01	1639.86
37 Pharmaceuticals(20)	9712.54	-0.6	9770.84	10085.45	7857.57	1.90	1.66	1.69	38.83	95.19	3473.95
38 Tobacco(3)	5766.06	-1.2	5838.48	5864.94	4383.78	4.46	3.94	1.75	15.97	130.10	1613.86
40 SERVICES(280)	3726.64	-0.3	3739.24	3801.45	2688.65	2.30	1.88	2.02	26.95	38.37	2053.28
41 Distributors(28)	2420.03	-1.1	2446.83	2466.21	2718.82	4.05	3.34	1.87	15.71	47.27	954.39
42 Leisure & Hotels(37)	3707.50	-0.7	3733.54	3814.60	3188.11	2.58	2.11	2.58	18.84	61.05	2104.89
43 Media(41)	4835.83	—	4837.22	4888.34	4000.79	2.15	1.81	2.25	25.86	53.36	1833.38
44 Retailers, Food(13)	3191.66	+0.3	3181.79	3207.89	2450.34	2.84	2.27	2.04	21.67	45.04	2180.17
45 Retailers, General(49)	2254.60	-1.0	2277.07	2297.22	2178.14	3.29	2.65	2.17	17.50	39.37	1350.19
46 Telecommunications(10)	4954.71	—	4953.15	5079.81	2328.58	1.77	1.46	1.81	48.76	16.14	2415.31
47 Breweries, Pubs & Rest.(24)	4142.10	-0.3	4155.84	4210.21	3386.90	2.97	2.38	2.35	17.87	49.34	2118.25
48 Support Services(64)	5340.76	-0.6	5370.76	5474.70	2953.34	1.11	0.94	2.56	45.50	30.02	3021.35
49 Transport(24)	4008.15	-0.9	4041.76	4109.17	2862.83	2.67	2.18	1.53	30.70	57.45	1794.10
60 UTILITIES([illegible])	4124.11	+0.5	4102.41	4144.65	3057.08	3.91	3.20	1.73	18.40	88.19	1988.86
62 Electricity(8)	4511.27	+0.2	4500.43	4533.52	3505.83	4.47	3.57	1.90	14.76	104.41	2652.27
64 Gas Distribution(2)	3307.28	+1.5	3259.88	3319.13	2199.63	1.97	1.57	‡	‡	28.63	1911.51
68 Water(12)	3578.13	+0.2	3576.35	3598.82	2963.70	4.77	4.09	2.31	11.33	112.14	2238.14
69 NON-FINANCIALS(637)	2845.70	-0.7	2866.02	2915.39	2295.21	2.78	2.36	1.94	23.12	38.61	2322.04
70 FINANCIALS(107)	5380.26	+0.2	5367.38	5528.33	4469.11	2.97	2.45	2.28	18.50	87.78	2491.96
71 Banks, Retail(12)	7734.66	+0.1	7730.24	8005.95	6893.17	3.06	2.45	2.38	17.57	126.41	2711.29
73 Insurance(18)	2611.25	+1.0	2585.38	2611.61	1792.32	3.20	3.02	2.20	17.76	49.01	2160.71
74 Life Assurance(6)	7247.50	+1.4	7144.43	7361.75	4727.50	2.81	2.25	2.52	18.99	108.92	3238.38
77 Other Financial([illegible])	4894.04	-0.4	4913.12	5010.70	3287.98	2.28	1.84	2.81	25.06	71.17	2990.96
79 Property(45)	2005.27	-1.0	[illegible]	2060.43	2026.32	3.23	2.89	1.82	23.94	38.40	1322.07
80 INVESTMENT TRUSTS(114)	3961.70	-0.7	3988.01	4041.99	3453.21	2.05	1.67	1.18	51.65	41.97	1448.65
89 FTSE All-Share(852)	2797.60	-0.5	2811.16	2867.81	2278.04	2.81	2.36	2.01	22.14	38.54	2541.42
105 FTSE All-Share ex Inv Tr([illegible])	2804.10	-0.5	2817.54	2874.86	2278.50	2.83	2.38	2.03	21.78	38.93	1310.55
Information Technology	1795.50	-1.8	1824.08	1870.19	-	0.48	0.38	3.79	68.95	2.91	1800.43
FTSE Fledgling	1402.21	-0.7	1411.52	1419.81	1242.79	3.15	2.55	1.41	28.04	19.92	1558.10
FTSE Fledgling ex Inv Tr	1423.16	-0.7	1432.55	1438.87	1241.58	3.48	2.82	1.49	24.25	22.22	1589.12
FTSE AIM	1094.5	-0.6	1100.8	1100.1	1031.6	1.15	0.01	0.01	80.00†	6.66	1013.70

Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5969.6	5949.7	5953.4	5965.1	6003.7	5976.0	5966.2	5972.5	6004.8	5925.3
FTSE 250	5642.5	5611.4	5597.6	5592.9	5590.6	5588.6	5585.8	5579.6	5645.5	5573.9
FTSE 350	2886.8	2868.2	2868.4	2872.5	2887.4	2878.4	2872.3	2874.2	2887.9	2858.2
FTSE SmallCap	2564.95	2558.70	2554.23	2553.05	2552.95	2552.84	2551.71	2550.63	2566.96	2549.88
FTSE All-Share	2809.38	2791.90	2791.79	2795.51	2809.21	2799.06	2795.23	2798.86	2809.58	2787.70

Time of FTSE 100 Day's high: 12:45:00 Day's low: 10:11:00. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 0.0 (00/07/98)
Time of FTSE All-Share Day's High: 12:46:00 Day's low: 10:11:00. FTSE All-Share 1998 High: 2885.20 (20/07/98) Low: 0.00 (00/07/98)

Further information is available on http://www.ftse.com

‡ Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday

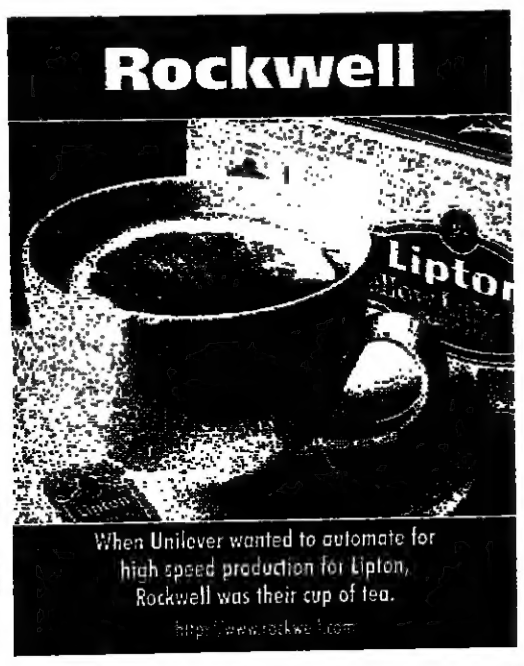
[illegible]

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE



PACIFIC

JAPAN (Jul 23 / Yen)

AFRICA

SOUTH AFRICA (Jul 23 / Rand)

AMERICAS

CANADA

TORONTO (Jul 23 / Can $)

4 pm close

MONTREAL (Jul 23 / Can $)

4 pm close

MEXICO (Jul 23 / Peso)

12:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY JULY 22 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY JULY 21 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	198.02	-1.8	179.93	176.47	184.34	212.09	-0.8	3.79	201.57	181.43	178.55	187.33	213.70	240.80	173.27	232.09
Austria (22)	240.11	0.2	216.87	213.90	223.53	223.38	0.4	1.51	239.62	215.87	212.25	222.59	222.53	253.73	181.60	198.09
Belgium (22)	394.12	-0.6	356.14	351.24	365.91	359.08	-0.4	1.91	398.57	356.94	351.29	368.55	360.48	396.52	234.33	252.18
Brazil (28)	235.78	-0.6	213.06	210.13	219.50	504.70	-0.4	2.02	237.21	213.51	210.12	220.45	506.75	308.20	184.94	291.53
Canada (120)	229.33	-1.0	207.23	204.38	213.49	248.21	-0.9	1.64	231.74	208.58	205.27	215.36	250.38	248.78	199.10	218.05
Denmark (34)	523.64	-1.2	473.18	466.69	487.49	486.02	-1.0	1.33	529.86	476.91	468.36	492.43	490.87	537.33	375.32	404.43
Finland (28)	488.38	-2.8	442.23	436.15	455.60	559.05	-2.6	1.84	503.24	452.96	445.78	467.69	573.90	505.28	267.59	299.34
France (79)	332.34	-2.5	300.31	296.18	309.39	312.89	-2.4	2.01	341.05	306.97	302.10	316.95	320.58	345.16	217.49	227.00
Germany (58)	319.06	-1.1	288.32	284.35	297.03	297.05	-0.9	1.12	322.67	290.43	285.83	299.86	299.88	325.61	204.89	230.57
Greece (37)	330.59	-0.8	298.73	294.69	307.77	703.85	-0.7	1.34	333.20	299.91	295.16	309.65	708.50	333.20	260.24	-
Hong Kong, China (66)	241.15	-1.8	217.92	214.92	224.51	239.81	-1.8	6.89	245.56	221.05	217.56	228.24	244.26	580.03	218.78	530.81
Indonesia (27)	32.48	-1.6	29.35	28.94	30.24	281.83	-0.8	2.39	32.99	29.69	29.22	30.66	284.34	228.54	23.58	229.44
Ireland (16)	534.28	-2.7	482.79	478.16	497.39	535.24	-2.5	1.81	548.94	494.09	486.25	510.16	550.02	580.44	359.80	369.48
Italy (54)	179.39	-1.4	162.10	159.87	167.00	236.60	-1.2	1.24	181.97	163.79	161.19	169.12	239.59	184.49	95.46	104.92
Japan (480)	92.68	-2.2	83.75	82.60	86.28	82.80	-1.7	0.95	94.82	85.34	83.99	88.12	83.99	136.89	83.04	136.50
Malaysia (106)	110.99	-3.2	100.29	98.91	103.32	177.12	-2.9	3.58	114.71	103.24	101.81	106.60	182.47	479.83	107.51	470.53
Mexico (28)	1463.19	-0.6	1322.19	1304.02	1362.17	14189.25	0.1	1.92	1472.25	1325.13	1304.13	1368.23	14180.49	1901.98	1278.19	1664.90
Netherlands (20)	550.68	-0.9	497.61	490.77	512.66	507.32	-0.8	1.85	555.94	500.39	492.46	518.66	511.26	562.38	385.56	421.44
New Zealand (14)	64.87	-2.8	58.44	57.68	60.20	65.92	-1.6	4.82	65.38	59.75	58.80	61.89	67.01	95.67	58.33	88.32
Norway (38)	313.34	-0.6	283.15	279.28	291.71	321.93	-0.5	1.94	315.23	283.73	279.25	292.96	323.48	374.64	281.62	318.02
Philippines (22)	70.31	-2.1	63.53	62.69	65.45	147.16	-1.9	1.16	71.84	64.66	63.64	66.76	150.01	153.54	57.54	150.26
Portugal (18)	288.44	-2.0	258.84	255.28	266.87	359.04	-1.9	0.81	292.35	263.14	258.97	271.70	368.04	299.30	261.25	-
Singapore (42)	146.40	-2.8	132.29	130.47	138.28	115.33	-2.8	2.51	150.61	135.56	133.41	139.97	118.62	390.51	133.81	395.25
South Africa (40)	218.10	-1.3	197.99	195.27	203.98	300.75	-1.7	2.97	221.90	199.73	196.56	209.23	308.04	361.95	213.50	357.55
Spain (31)	402.10	-2.1	363.35	358.36	374.34	462.95	-1.9	1.64	410.69	369.66	363.80	381.68	471.97	417.73	236.26	256.98
Sweden (49)	608.12	-2.0	547.71	540.16	564.27	714.37	-2.0	1.84	618.75	558.82	548.09	575.03	728.85	628.19	438.98	507.15
Switzerland (28)	432.99	-1.0	391.26	385.89	403.10	408.33	-0.8	1.02	437.47	393.76	387.52	406.57	409.67	439.48	285.85	309.71
Thailand (38)	14.39	-5.2	13.00	12.83	13.40	22.87	-5.1	4.02	15.18	13.66	13.44	14.10	24.11	65.78	11.66	61.03
United Kingdom (209)	385.33	-2.5	348.19	343.41	358.72	348.19	-2.1	2.86	395.12	355.64	350.00	367.20	355.64	401.84	303.41	318.63
USA (528)	476.15	-0.2	430.27	424.36	443.28	476.15	-0.2	1.26	477.09	429.42	422.61	443.39	477.09	485.88	358.31	378.80
Americas (803)	428.45	-0.2	387.16	381.84	398.87	362.72	-0.2	1.38	429.47	386.55	380.43	389.12	363.53	437.03	328.79	346.17
Europe (737)	375.61	-1.8	339.41	334.75	349.66	356.80	-1.8	1.92	382.56	344.34	338.88	355.53	362.62	396.24	285.25	279.69
Eurobloc (348)	110.26	-1.6	111.95	116.63	110.95	110.86	-1.4	1.57	112.05	113.32	117.99	112.55	112.58	113.28	99.54	-
Nordic (149)	538.50	-1.9	486.61	479.92	501.33	552.63	-1.8	1.81	549.13	494.26	486.43	510.34	562.86	555.97	388.51	428.99
Pacific Basin (867)	98.45	-2.2	88.96	87.74	91.65	87.90	-1.8	1.69	100.67	90.51	89.17	93.56	89.36	154.66	88.45	153.96
Euro-Pacific (1604)	213.97	-1.9	193.35	190.70	199.20	189.47	-1.6	1.86	218.17	196.37	193.25	202.75	192.53	220.18	172.03	206.46
North America (748)	459.98	-0.2	415.66	409.94	428.23	460.85	-0.2	1.37	461.05	414.88	408.40	428.48	461.72	469.20	349.06	368.62
Europe Ex. UK (534)	357.09	-1.5	322.68	318.25	332.44	349.79	-1.3	1.49	362.50	326.35	321.18	336.97	354.55	366.32	236.79	252.27
Europe Ex. Eurobloc (389)	100.99	-2.1	102.55	107.01	101.83	102.64	-1.8	2.29	103.11	104.30	108.60	103.59	104.47	103.93	94.53	-
Europe Ex. UK Ex. Eurobloc (180)	107.01	-1.3	108.67	113.39	107.69	108.97	-1.1	1.25	108.39	109.64	114.17	108.90	110.19	109.21	95.88	-
Pacific Ex. Japan (387)	158.03	-2.0	142.80	140.84	147.12	184.74	-1.6	4.69	161.27	145.15	142.85	149.97	167.25	316.59	142.99	306.28
World Ex. Eurobloc (2099)	100.91	-0.9	91.19	89.94	93.95	102.37	-0.7	1.61	101.81	91.63	90.18	94.62	103.12	103.16	93.25	-
World Ex. US (1919)	215.81	-1.9	195.01	192.33	200.91	195.82	-1.5	1.86	218.88	197.91	194.77	204.35	198.98	221.91	175.30	210.29
World Ex. UK (2244)	291.62	-0.8	263.52	259.69	271.49	269.59	-0.7	1.45	294.05	264.87	260.47	273.29	271.49	298.02	234.24	258.81
World Ex. Japan (1967)	402.31	-0.9	363.54	358.54	374.53	387.62	-0.8	1.67	405.82	365.28	359.48	377.14	400.56	411.23	309.33	329.20
The World Index (2447)	299.63	-1.0	270.75	267.03	278.94	276.82	-0.8	1.60	302.65	272.41	268.09	281.27	279.18	306.56	241.30	263.97

Emerging markets: IFC investable indices

Dollar terms

Jul 22 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	1,001.25	-1.1	-10.3
Brazil	484.63	-0.5	-3.7
Chile	540.71	-1.9	-15.9
Colombia[1]	510.24		-38.2
Mexico	628.58	-0.5	-20.2
Peru[2]	200.59	-0.4	-9.4
Venezuela[3]	478.34	-1.4	-47.6
East Asia			
China[4]	31.23	-2.5	-43.5
Korea[5]	31.72	-0.5	+32.0
Philippines	98.94	-1.9	-12.2
Taiwan, China[6]	123.72	-1.1	-12.3
South Asia			
India[7]	70.24	-0.4	-15.7
Indonesia[8]	15.57	-1.3	-53.7
Malaysia	61.27	-3.2	-32.8
Pakistan[9]	98.91	+2.3	-51.0
Sri Lanka[10]	84.09	-0.9	-27.7
Thailand	45.44	-0.2	-3.4
Europe/Mideast/Africa			
Czech Rep	58.61	-2.1	+7.5
Egypt	74.97	+1.5	-18.6
Greece	598.04	-0.7	+84.5
Hungary[11]	331.20	-0.9	+8.2
Israel	125.38	-0.0	+3.0
Jordan	230.20	-0.4	+9.5
Morocco	164.20	+0.3	+28.0
Poland[12]	774.46	-2.7	+29.5
Portugal	321.06	-2.2	+52.1
Russia	86.04	-5.9	-55.6
S Africa[13]	155.30	-1.0	-13.6
Slovakia	61.08	+0.2	-38.4
Turkey[14]	279.81	-0.4	-10.4
Zimbabwe[15]	238.76	-0.1	-6.1
Regions			
Composite	218.08	-1.1	-11.4
Latin America	579.01	-0.8	-14.5
Asia	88.15	-1.3	-18.2
EMEA	143.89	-1.2	-2.8
Europe	195.52	-1.8	+3.7
Easter Europe	96.83	-3.4	-31.0
ME & Africa	65.10	-0.8	-9.0

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)May 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

4 pm close July 23

NEW YORK STOCK EXCHANGE PRICES

- A -

[illegible]

- B -

[illegible]

- C -

[illegible]

- D -

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- E -

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Price data supplied by [illegible], part of FT Information.

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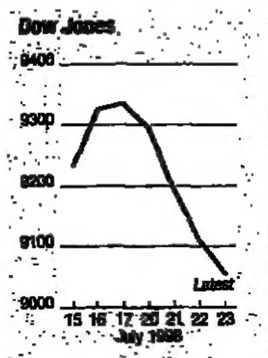
GLOBAL EQUITY MARKETS

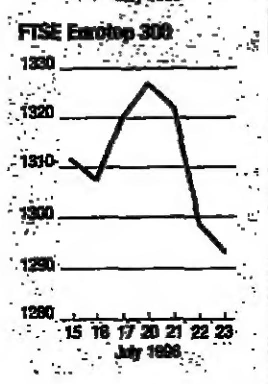
US INDICES

US DATA

Dow Jones



FTSE Eurotop 300



JAPAN

FRANCE

GERMANY

UK

INDEX FUTURES

WORLD MARKETS AT A GLANCE

THE NASDAQ STOCK MARKET

THE NASDAQ STOCK MARKET

AMEX PRICES

EASDAQ

STOCK MARKETS

Poor earnings bring investors down to earth

WORLD OVERVIEW

After an overnight shock from the threat of a downgrading of Japan's credit rating, investors were brought rudely back to fundamentals yesterday as a number of poor earnings reports and forecasts sent stock markets lower in a volatile trading day, *writes Vincent Boland.*

Boeing, the US aircraft maker, BMW, the German luxury car group, and the UK's Imperial Chemical Industries, all posted disappointing earnings figures, with ICI warning that the strength of sterling would lead to lower full-year profits than analysts had pencilled in.

Coming on top of the latest reservations from Alan Greenspan, chairman of the Federal Reserve, on high US stock prices, these figures contributed to a decidedly gloomy mood and put paid to signs that Wall Street might extend its brief opening gains.

Analysts said the underlying tone of the markets was generally positive but very sensitive to blips in earnings.

Asian markets were hammered by the announcement from Moody's Investors Service that it had put Japan's sovereign credit rating, currently the highest possible at Aaa, on review for a possible downgrade.

Japanese shares, already depressed by political worries, largely shrugged off the news and fell by just over 0.5 per cent, but other Asian markets tumbled. South Korea was worst hit, falling 5.7 per cent, while Hong Kong shares dropped 2.9 per cent.

The Asian equities team at Goldman Sachs said it remained underweight in Asia (ex-Japan), saying it needed to see a pick-up in Japanese growth, firmer growth in China, a stabilisation in regional economic growth, especially in the crisis-hit economies, more structural reforms, and compelling valuations.

"Progress is evident on most fronts but it is not yet sufficient across the board," Goldman said.

Asia's jitters set the tone for a poor start on European markets, and a brief rally on the back of a big restructuring of the French defence industry, well received by analysts in spite of doubts about whether France was going far enough to privatise the sector, was undermined by BMW and ICI.

Paris managed a 0.4 per cent rise but was alone among the leading European bourses in remaining in positive territory at the close of trading.

In Frankfurt, German shares ended down 0.8 per cent; the FTSE 100 index in London shed 0.2 per cent, while Milan shares fell 0.1 per cent.

Dow drops back through 9,100 level

AMERICAS

US equities lost ground in morning trade as blue chips were dragged down by a steeper fall in second-quarter profits at Boeing than Wall Street had expected, *writes Jonathan Robinson in New York.*

By early afternoon, the Dow Jones Industrial Average was down 57.93 at 9,070.98, continuing the week's downward trend after last Friday's record.

Other indices also slipped, with the Standard & Poor's 500 down 8.06 at 1,156.02 and the Nasdaq Composite falling 7.04 to 1,962.71.

Boeing's stock, responsible for the early slip in the Dow, tumbled 5\frac{11}{16}$ to $42 after the aircraft manufacturer reported earnings one cent per share below estimates and offered a projection for a slower recovery than previously expected.

The telecommunications sector was lifted by positive earnings announcements from three telecoms giants.

AT&T, reporting earnings a penny per share above estimates, rose $1⅞ to $59½, while Worldcom, also beating estimates by one cent, climbed to 56\frac{1}{16}$, up $1⅞. MCI surged in the wake of Worldcom's success, rising 2\frac{13}{16}$ to $68⅞.

Positive earnings reports caused other shares to climb. US Steel beat expectations by 3 cents a share, lifting its shares $1 to 30\frac{13}{16}$. Meanwhile, 3M and Maytag, two diversified manufacturers whose quarterly results were also above estimates, rose $⅞ to 79\frac{13}{16}$ and $$\frac{1}{16}$ to $46⅞, respectively.

Colgate-Palmolive, producer of household and personal care products, also reported better earnings than expected and enjoyed a 2\frac{1}{16}$ increase to $96⅞.

Chrysler climbed 1\frac{1}{16}$ to $59¾ on the expected news that the European Commission had approved its merger with Daimler-Benz. That was against the trend in the automobile sector, with GM dropping $1¼ to $70⅞ and Ford down $$\frac{11}{16}$ at $59⅞.

Computer Associates, which tumbled 31 per cent on Wednesday as it blamed weakening sales on the Asian economic collapse, recovered some of the lost ground, rising 6 per cent or 2\frac{1}{16}$ to 41\frac{1}{16}$.

Allstate, downgraded yesterday by Lehman Brothers in spite of reporting earnings in line with expectations on Wednesday, fell $1⅞ to $47⅞.

The retail sector was broadly weaker, with Sears Roebuck sliding 1\frac{1}{16}$ to $55⅞, in spite of posting earnings ahead of expectations. Nordstrom fell $2⅞ to $32½, JC Penny lost $2⅞ to 62\frac{1}{16}$ and Saks Holdings gave up $1⅞ to $25⅞.

TORONTO was 1 per cent easier at midsession on lower earnings reports in various sectors, falling values for golds and copper and further weakness in the Canadian dollar which fell to a record low overnight.

The TSE-300 composite index was 73.39 lower at 7,276.50 in light volume of 29.1m shares valued at C$615.4m.

São Paulo loses ground

SAO PAULO slipped in early trade as the yen's fall and weakness in Asia depressed sentiment. The Bovespa index fell 134 to 10,779.

All eyes were on Telebrás, ahead of its privatisation next week. The bellwether lost R$1.80 to R$137 on profit taking.

Petrobrás lost R$10 to R$268 while Eletrobrás declined R$0.30 to R$38.20.

BUENOS AIRES eased as investors held off on Asian jitters. The Merval index fell 5.52 to 610.23, although sentiment was firm following President Carlos Menem's decision not to run in the 1999 presidential elections.

MEXICO CITY eased marginally as worries over Asia offset a positive earnings outlook. The IPC index retreated 20.25 to 4,544.50.

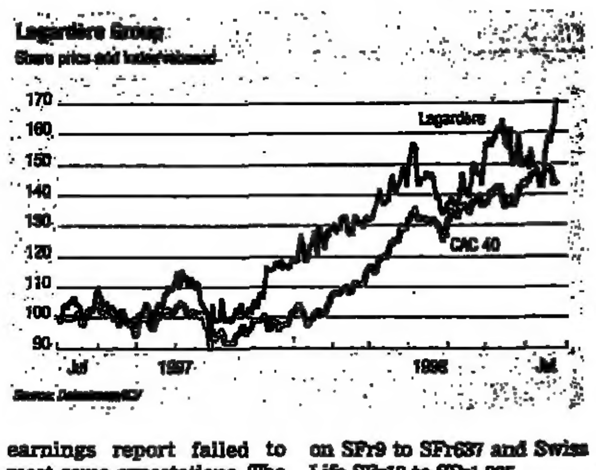
SANTIAGO firmed after Wednesday's 1.5 per cent decline. The IPSA index, which was hit by a heavy sell-off in American Depositary Receipts issued by Chilean companies the previous day, edged up 0.16 to 91.50.

Merger lifts defence groups

EUROPE

Shares in European defence groups were marked higher on news that the French government was to merge state-owned Aerospatiale with the defence interests of Lagardère, the private sector defence and publishing group.

That raised hopes the pace of industry consolidation would quicken. Lagardère, which peaked at FFr294.80 after being suspended through the morning, closed up FFr17.90 or 6.5 per cent at FFr291.90 as investors digested news of the alliance.



Thomson-CSF rose FFr9.70 or 4.5 per cent to FFr226 on speculation that it and partner Alcatel would eventually become part of a large European grouping alongside the Aerospatiale/Lagardère alliance. Alcatel gained FFr49 or 3.9 per cent to FFr1,319.

Dassault Aviation edged FFr2 higher to FFr1,949 amid expectations that the company would be sucked into the Aerospatiale-Lagardère alliance at a later stage.

Elsewhere in PARIS France Telecom put on FFr9.50 to FFr394.90 after taking a battering since Monday's announcement of a capital increase and the sale of government shares.

Moulinex tumbled FFr8.30 or 5.6 per cent to FFr139 after it reported weaker first-quarter sales. Plastic Omnium, which specialises in bumpers and other motor parts, put on FFr30 to FFr885 after the group reported a 14.3 per cent rise in first-half sales. Other car stocks suffered further losses after the government announced it would raise diesel fuel tax.

The CAC-40 index recovered from a low of 4,220.58 to close 15.77 higher at 4,235.89.

FRANKFURT closed weaker after a session dominated by BMW and Daimler. By the end of electronic trade, the Xetra Dax index was 37.29 lower at 6,043.82. BMW tumbled DM115 to DM1,705 as its six-months earnings report failed to meet some expectations. The shares also came under pressure from news that its Rover business in the UK would cut 1,500 jobs.

Daimler rose DM6.65 to DM182.90 as substantial switching was reported out of BMW. Analysts said investors were attracted by Daimler chairman Juergen Schrempp's statement that the synergy effects of the planned merger with US group Chrysler will be higher than expected, as well as by higher truck sales and the developments in Europe's defence industry.

ZURICH was lower for a second straight day as falls in Nestlé and the two pharmaceutical majors, which account for about 50 per cent of the SMI index, kept the index under pressure. It finished 111.5 lower at 8,229.2.

Nestlé lost SFr124 or 3.6 per cent to SFr3,312 as the market registered disappointment with half-year sales growth of 5.7 per cent.

Roche certificates lost SFr235 to SFr15,700 and Novartis SFr36 to SFr2,480 after recent strong runs.

Analysts noted that weakness in cyclicals, suffering from the Asian crisis, and Wall Street's weak start, exerted downward pressure on the market. ABB lost SFr49 to FFr2,268 after its 13 per cent rise in first-half profits proved at the lower end of expectations. UBS put on SFr9 to SFr637 and Swiss Life SFr13 to SFr1,205.

AMSTERDAM slid as corporate results announcements revealed the effects of Asian turmoil, and the AEX index declined 17.82 or 1.4 per cent to 1,280.06.

Philips fell Fl 4.20 or 2.4 per cent to Fl 171.30 after the electronics group said the impact of Asian economic woes was greater than expected. It announced a 28 per cent increase in second-quarter profits, but jitters offset the positive impact.

Asian worries also depressed ASM Lithography, the semiconductor equipment maker. The shares plunged Fl 7.10 or over 11 per cent to Fl 56.50 as the company said its 1998 results would be substantially lower than the previous year due to Asian demand and the poor outlook for the sector.

KPN, the telecoms group, rose Fl 2.80 or 3 per cent to Fl 96.60 on continued positive effects of the recent divestment of its postal arm.

A rally in banks and Repsol, the oil group, pushed MADRID higher, with the general index up 4.43 or 0.5 per cent to 924.68.

Bullish first-half earnings lifted BBV Pta45 to Pta2,915. Other banks were also higher with Santander adding Pta20 to Pta4,150 and Popular Pta140 to Pta12,220.

Repsol gained Pta150 to Pta8,440 on expectations of strong first-half earnings.

Endesa, the electric utility, lost Pta60 or 1.7 per cent to Pta3,400 on speculation first-half results may disappoint.

MILAN closed flat, paring early losses, with the Mibtel index falling 29 to 25,402. Utilities were higher with AEM up L107 to L2,240 and Edison L640 to L16,725. Banks also gained ground. Credito Italiano rose L429 to L10,176 and Banca di Roma gained L100 to L4,197.

STOCKHOLM closed marginally higher after a volatile day, with options-related selling dominating activity. The general index rose 14.82 or 0.4 per cent to 3,809.65.

Telecom stocks gained ground ahead of their first-half reports. Ericsson was up SKr5.50 to SKr256.50.

Written and edited by Michael Morgan, Emiko Terazono and Peter Hall

Golds lead Jo'burg lower

SOUTH AFRICA

Johannesburg ended weaker for a fourth consecutive day led down by easing golds as a recovering rand dulled the sector's recent gloss.

Analysts said that continuing high interest rates were also sapping sentiment, with investors dumping equities to pursue higher yields in the bond market.

Golds fell 49.1 or 4.8 per cent to 972.5 as Gold Fields tumbled R3.30 or 9.9 per cent to R29.90. The overall index lost 81.6 to 7,119.8 and industrials fell 102.8 to 8,308.4.

Johnnic was hard hit, losing R5.40 or 9.2 per cent to R53.50.

Debt warning weighs on Tokyo

ASIA PACIFIC

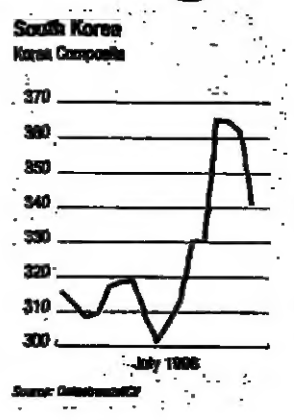
News that Moody's, the US credit ratings agency, had put Japan's debt on watch for possible downgrade, along with concerns about the next administration's economic policy, weighed heavily on TOKYO, *writes Alexandra Harney.*

On the eve of the election for the Liberal Democratic party president, who will automatically become the next prime minister, investors were worried that a new administration's policies would lead to restructuring in the banking sector.

The Nikkei 225 average fell for the fourth consecutive day, closing down 105.05 at 16,188.01, having traded between 16,158.44 and 16,320.53. Declining stocks exceeded winners by 785 to 346 with 143 shares unchanged.

The Topix index of first-section issues slid 7.98 to 1,249.87. Volumes were thin at 410m shares exchanged.

Banking shares tumbled on growing anxiety about the next administration's policy towards the financial sector. Long Term Credit Bank (LTCB), which fell earlier in the week below its face value, closed up Y1 at Y50. Sumitomo Trust, which is in merger talks with LTCB, lost Y6 to close at Y469. Sakura Bank slid Y2 to Y325, and the Bank of Tokyo Mitsubishi sank Y52 to Y433.



Iron and steel issues, which have been heavily traded in recent weeks, were weaker. Nippon Steel was the most heavily traded share, falling Y2 to Y252. Kawasaki Steel, however, gained Y5 to Y258.

Ishikawa Seisakusho, the textile machine manufacturer that has soared recently on speculative trading, picked up another Y27 to Y540.

In Osaka, the OSE index fell 80.53 points to close at 17,131.45.

SEOUL, like much of the rest of the region, was shaken by Moody's announcement and the composite index tumbled 20.61 or 5.7 per cent to 341.46.

Fears of a ratings downgrade for Japan depressed the yen to the Y141 level against the dollar, which also hit sentiment. Overseas investors and local institutions were sellers, although net buying was reported by retail investors.

Korea Electric Power lost Won850 or more than 5 per cent to Won16,400. Moody's said it would cut the outlook of the group's senior unsecured debt ratings.

BANGKOK was hit by heavy selling of banks and finance stocks which sent the SET index down 10.32 or 3.6 per cent to 276.20.

The reverberations of first-half corporate losses, announced earlier in the week, depressed sentiment.

Thai Farmers Bank, the most actively traded stock, fell Bt2.50 to Bt30.25 while Bangkok Bank fell Bt4.25 to Bt43. National Finance lost Bt0.30 to Bt3.60.

HONG KONG was dogged by the weak yen and doubts about Japanese reforms while renewed concerns about the Chinese economy sent China-related stocks tumbling.

The Hang Seng index fell 244.47 or 2.9 per cent to 8,176.25 but China-related stocks fell a lot harder. The H-share index dropped to an all-time low of 361.84 during the session, before closing down 30.14 or 7.7 per cent at 363.53.

The red-chip Hang Seng China-Affiliated Corporations index finished down 37.37 or 4.9 per cent to 730.78.

MANILA hit its lowest level in six months as regional worries compounded concerns over the government's handling of its economic situation. The composite index fell 33.59 or 2 per cent to 1,678.16.

Manila Electric, the power distributor, lost 4 pesos to 100 pesos while Ayala declined 0.25 pesos to 10 pesos.

KARACHI rebounded from early lows on speculative demand spurred by news that US and Pakistani officials had concluded a round of what they called "substantive and constructive" arms control talks and agreed to meet again in about a month.

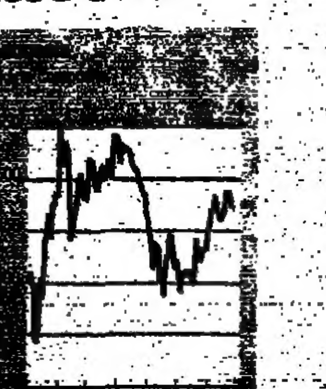
The KSE-100 index finished 25.70 or 2.9 per cent higher at 921.46.

BOMBAY fell prey to worries about the yen, and was further unsettled by sales by foreign funds and poor first-quarter results from the country's largest private sector steel manufacturer, Tata Iron and Steel. The BSE-30 index finished 116.81 lower at 3,227.52 as Tisco lost Rs9.80 at Rs113.10.

EMERGING MARKET FOCUS

Indonesia prey to speculators

Indonesia's stock market continued yesterday to give back some of the 20 per cent gains made in recent weeks.



Although the recent rally has partly been supported by signs that President B.J. Habibie has consolidated his hold on power and obtained support from the International Monetary Fund, traders have attributed the market's rise to speculative buying and other external factors rather than signs of a real economic recovery.

Jakarta's index hovers around 480 to 490, compared with 400 in mid-June, a low of 330 in the beginning of the year and a high of 540 in early April. It slipped 9.25 or 1.91 per cent yesterday and analysts expect a further slide next week.

"Perhaps the market picked up too quickly," said David Chang, head of research at Trimegah Securities. "There are not really any fundamental improvements." Indeed, as fears of new unrest have spread with the economy's continued decline, investors have kept away and the value of daily trade remains below $150m.

Some Indonesian exporters have benefited from a depreciation in the rupiah.

HM Sampoerna, the cigarette manufacturer, for example, reported an unexpected rise in first-half sales, sparking a rush on its stock.

However trading has been short term. When the rupiah strengthened last week, investors took profits. Jitters in Tokyo and talk of an interest rate increase in the US have also had much more of an impact on the market than they would have just a year ago.

Other shares have picked up in rumour-driven trade. Semen Gresik, the partially privatised cement mill, rocketed when news leaked out of a possible counterbid to that of Cemex of Mexico which had been named as the preferred bidder.

The government's success in attracting a serious bidder for its first privatisation this year boosted interest in other companies the state is selling off, such as two partially privatised mining companies, Aneka Tambang and Tambang Timah.

Aneka Tambang, which reported a 10-fold increase in net profits for the first half of 1998, said earlier this week that five foreign investors had expressed interest.

But when officials indicated they had not yet decided how much of Aneka Tambang to sell, mining stocks slipped back again.

"It is very speculative, this rally," one analyst said. "Everyone knows the bad news. If it gets a little better, or there are a few points of light, shares can react very quickly."

Much of the buying in the market has been led by local investors with foreign funds mostly sidelined. Mr Chang says pension funds had remained active because they could not go off-shore, while retail investors, fearful of investing in their own businesses after last May's riots, still accounted for small volume but were active.

"They still have spare cash, and a lot of spare time," Mr Chang said. "It's like going to the casino."

Sander Thoenes

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